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PREPARATION FOR THE 1990 FARM BILL

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

PROGRAMS FOR WOOL AND HONEY; RICE; AND SUGAR

MARCH 2, 1990
MARCH 5, 1990
MARCH 6, 1990

PART XII

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PREPARATION FOR THE 1990 FARM BILL

Wool and Honey

FRIDAY, MARCH 2, 1990

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:34 a.m., in room SR-332, Russell Senate Office Building, Hon. David H. Pryor, chairman of the subcommittee, Hon. Kent Conrad, presiding.

Present or submitting a statement: Senators Conrad, Baucus, and Daschle.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. This hearing before the Subcommittee on Agricultural Production and Stabilization of Prices will come to order.

This morning we have a hearing in preparation for the 1990 farm bill and we will be specifically addressing the honey and wool programs. I would like to thank my colleague, Senator Pryor, the chairman of this subcommittee, for asking me to chair this hearing this morning.

It is a pleasure to have with us the Assistant Secretary, Mr. Gardner. I am looking forward to hearing your testimony this morning and we appreciate your participation.

I also see that Jack Meyer of South Dakota is in the room, I would like to welcome him as well. Jack is a commercial honey producer and legislative chairman of the American Honey Producers Association. He has been a persuasive spokesman for the honey industry for many years, and I am glad to have him with us as well.

HONEY PROGRAM

Let me begin by pointing out the importance of the honey program to agriculture in this country. This is a very small program with very large benefits. In addition to producing honey, honeybees are responsible for more than three-quarters of agricultural pollination. As I am sure all of you are aware, one recent study estimated the added value of 49 major crops due to pollination at over $9 billion a year.

When you compare that with the cost of the honey program, $100 million in its most expensive year, and usually a good deal less, I think we can all agree that the honey program is a remarkably good deal for American agriculture and the American economy.

Many crops could not be produced at all without pollination. Almonds, most apple varieties, oranges, plums, alfalfa, broccoli, carrots, cauliflowers, none of these crops could not be commercially produced without pollination. In addition, bee pollination improves the yields of dozens of other crops. It is in the interest of producers and consumers in every State to help keep beekeepers in business.

It is a small industry, but it is vital to the health of American agriculture. We simply must maintain a strong honey program.

WOOL PROGRAM

The wool program is another small but vital part of American agriculture. This country has been committed to maintaining a viable domestic wool industry since the 1950's. I see no reason to back away from that commitment now.

A domestic supply of high quality wool is essential. The wool program is unique among all commodity programs in that it encourages farmers to improve the quality of the wool that they produce. The administration's proposal would do away with this feature. That is a step in the wrong direction, especially if we are serious about becoming more competitive in the international marketplace.

We should focus our efforts on quality improvement, not turn our backs on it.

The wool program also helps support producer incomes, especially in areas suitable to little else but grazing. These are isolated rural areas, but they sustain many small communities. Many of these rural areas have a large percentage of their land in the Conservation Reserve Program. Some of this land can go back into agricultural production with proper conservation practices. Much of it, however, should go into grazing.

It is important that the wool program be in place to provide a viable economic alternative for farmers. We need to put more emphasis on rural economic development, not less. For many areas of this country, that means a strong wool program.

The wool program is particularly important to some of our Native American communities. We will be hearing from a representative from the Navajo Nation this morning. I am especially pleased that she could be here today.

Finally, I would again emphasize that the wool program is small, but the benefits are large. In 1988, the wool program cost an average of just cents per U.S. taxpayer. I know we have budgetary pressures, but a program that costs so little and that provides so many benefits is worth preserving.

Without objection, the prepared statement of Senator Baucus will be received for the record.

[The prepared statement of Senator Baucus follows:]

PREPARED STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Mr. Chairman, I want to thank you for holding this hearing today on the wool and honey programs.

These programs are small relative to other farm programs, but they mean a great deal to many Western States like Montana.

It is critical that we maintain both of these programs as they are currently structured so that producers can afford to continue to provide wool and honey for consumers.

Congress passed the Wool Act in 1954 in response to fabric demands of World War II and the Korean conflict. U.S. leaders at the time decided to support a strong domestic wool industry as an item of national defense.

They, therefore, devised a program to stimulate production of a critical commodity.

Under the program, producers receive an incentive for producing high quality wool. The higher the quality wool they produce, the higher the support payment.

The beauty of this program is that it doesn't cost the taxpayer a dime. In fact, it puts money in the Treasury.

The program is paid for through a tariff imposed on imported wool.

This tariff nets about $300 million per year. In 1988, the cost of the wool program was only $80 million. In other words, the Treasury came out ahead by about $220 million.

I am concerned that the administration wants to completely dismantle the wool program by converting it to a target price system similar to some other program crops.

This change would eliminate the incentive for increasing production of high quality wool. Instead, it would turn the wool program into one that is designed to control production.

I think this is the wrong approach and I strongly oppose it.

In fact, today Senator Daschle and I are introducing legislation to reauthorize the existing wool program through 1995.

The current program achieves the objectives it was intended to achieve and puts money in the Treasury to boot. It should continue as is.

I would also like to comment on the administration's recommendations with regard to the honey program.

Changing it to a target price/deficiency payment program could mean disaster for all honey producers.

Incomes would fall just as production costs are beginning to increase. Treatment for a recent parasitic mite infestation is expected to cost producers up to 10 percent of their total cost of production.

They can't afford a cut in income, let alone new costs.

In addition, honey loan rates have been cut by 18 percent since 1985. This cut is larger than that for any other commodity over the past 5 years.

I'd say honey producers have already done their fair share of decreasing the cost of the honey program. They can't afford any more cuts.

I look forward to hearing testimony from our witnesses.

Senator **Conrad**. Before we would begin, I would like to remind all of the witnesses that we are on a very tight time schedule. In order for Senators to have time to ask questions, it is important that witnesses summarize the major points of your prepared testimony. As always, the full prepared text will be included in the record as if delivered.

With that, Mr. Gardner, welcome and we would be pleased to receive your testimony.

STATEMENT OF BRUCE L. GARDNER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. **Gardner**. Thank you.

INTRODUCTION

Mr. Chairman, I appreciate the opportunity to be here today. I will discuss wool and mohair and honey in the 1990 farm bill and, as you suggested, I will just give briefly the highlights of what is in the written testimony.

Wool and mohair and honey are commodities which we do recommend in our Green Book proposals to have some substantial program changes, although I think we leave the spirit and function of these programs essentially intact. What I would like to do is explain briefly why we are proposing these changes.

WOOL

First, with respect to wool, the United States is and has been for many years, a fairly small factor in the world wool market, with our production about 1 percent of the world output. Wool is the only supported commodity which we import more of than we produce. Wool is also unique in being a joint product with a fiber and meat component.

The idea behind our wool program from 1954 to the present is to stimulate production by guaranteeing producers prices above the market price that would otherwise prevail. It has not been a matter of providing a floor below prices during periods of surplus. The support price has been higher than the market price in 34 of the last 35 years, and the support price has averaged 60 percent above the market price.

Nonetheless, wool production has continued to trend downward and is now about half of its 1970 level. Moreover, over the period of the 1985 act, that is from 1986 to the present, the support price for wool rose about 7 percent while almost every other support price has declined.

What we propose doing is to treat wool more like the other commodities with a target price set initially at 90 percent of the 1985 wool support price.

Another change we propose, as you mentioned, is to make payments on a poundage basis rather than as a percentage of receipts. The receipt basis for payments was intended to encourage higher quality wool. But this approach gives a higher payment to the producer who sells into a higher priced market or has good luck or skill in the timing of wool sales. The person who happens to sell into a relatively weak market gets a lower payment. So rather than stabilizing the distribution of receipts, the wool program makes it wider. Payment on a poundage basis, as we propose, would not do this.

The producer who sells higher quality wool would still receive the premium that the market offers and, in our view, that is the proper incentive for quality. Just to take one example of many others, U.S. cotton has established itself as a high quality product with a price support program on a payment per pound basis.

MOHAIR

I just addressed wool here. Mohair is in a roughly similar situation with respect to policy, but a major difference is that it is an exported rather than an imported commodity. But the basic policy situation is similar and we propose similar changes in the mohair program.

HONEY

Turning to honey, the policy situation is quite different. The price support program works primarily through CCC loans and acquisition of surplus honey. In 1984, nearly two-thirds of U.S. honey production was acquired by the Government while we relied on imports for honey consumption. Consequently, policy adjustments were made in the 1985 act.

Since 1985, the support price has been reduced by 14 percent, a larger reduction than for any of the major commodities. In addition, the lower loan repayment provision, which is essentially a marketing loan type of program cut the forfeitures dramatically. Still more than 90 percent of the 1988 honey crop was placed under loan and outlays reached $100 million in fiscal year 1988.

We believe that moving to the target price and deficiency payment approach would provide as much support to producers of honey at less budgetary costs. The loan and repayment rates would continue as they are, but at more market oriented levels, and this would permit income support to producers without the potential market disruption and CCC handling costs that the honey program has involved in the past.

That concludes my summary, and I would be pleased to answer any questions.

Senator CONRAD. Thank you very much for your participation and for your testimony. Regarding the wool program, first let me ask how would the administration's proposal affect wool producers' income?

Mr. GARDNER. Well, if we look at the support level that would go into the 1990's under our proposal, compared to the baseline budget, the baseline would show increasing wool support prices, under the formula that we have used in the past. Ours, as I mentioned, starting in 1991 with 90 percent of the 1985 support level would be lower, and the comparison would be something on the order of $1.88 under the current law versus about $1.56 under our proposal. So that is a roughly 30 cents difference.

Senator CONRAD. The difference would be a 30 cent reduction?

Mr. GARDNER. Yes, except there are some factors you have to take into account. That is the whole economics of what the response would be to this lower total price of wool. That is, you need to know if there's going to be a response on the number of sheep. Presumably if there's a response in the number of sheep, it would be slightly smaller, although we think it would actually be quite minuscule, the supply response.

To the extent that occurred, you would have a higher market price of wool and of lamb, also. So there would be some offsetting response there, but we do think it would be quite small. I think it is fair to say about a full passthrough.

Senator CONRAD. If I could interject, that is about the worst program proposal I have heard so far. What we would get is less supply, higher cost, and lower income to producers. Does that pretty well summarize the proposal?

Mr. GARDNER. What we get is a budgetary savings and we bring the support of wool more in line with what the other commodities are doing. There is no doubt that this will reduce the receipts that wool producers get.

Senator CONRAD. I appreciate your forthrightness. You are to be commended for your honesty. That is the honest answer. The honest answer is a sharp reduction for producer's income and probably a marginal reduction in supply and a somewhat higher price to consumers. This proposal does not strike me as a winner.

Mr. GARDNER. Can I say why we think it is a winner? It is desirable to bring wool, we think, in line with other commodities. But if you add up the Government savings, the price changes, and the losses to producers, the sum is a net gain and that is why——

Senator CONRAD. There is a new math that is at work here. For somebody there is a gain. The only one that I see gaining under this proposal is maybe USDA. But for producers——

Mr. GARDNER. The taxpayer.

Senator CONRAD. The producers experience a sharp reduction in income. For example, 40 percent of Navajo income comes from this source. You may think taxpayers are going to get a reduction. I will tell you what is going to happen. The taxpayers are going to have the opportunity to go spend more on food stamps, they are going to have more people on welfare, they are going to have more people on every income transfer program the Federal Government has.

And I bet nobody has factored that in because it does not come out of USDA's account. What this proposal does is take money out of one pocket and put it in another.

Let me ask you this, Mr. Gardner. What would happen to the quality of wool produced in this country under the administration's proposal?

Mr. GARDNER. Let me just say, too, about the decline in support, that I still think we have to keep in mind that if we stay with the policy we have now, we will have rates of price support protection of about 100 percent in the 1990's. That is to say that the support price will be about twice the market price and we have no problem with supporting the wool industry in the way we support other industries in agriculture. But the rate being that high, it seems to me it could come down a bit.

With respect to the quality question, again I grant that the percentage of receipt approach does give the producer who produces a higher quality product a higher payment. The problem with that is that it also gives the producer who produces a product that may not be of any higher quality, but because of the timing of the marketing of it or the place that it is marketed or some other reason, may get an especially high price for the product and we reward that, too.

Conversely, if a producer has bad luck or hits a bad season for marketing or is in a location where the market is not as good, he gets a lower price, and that producer gets a lower payment. We just think that overall it would be better to base everything on a per-pound basis.

Senator CONRAD. Would you acknowledge that this program would remove the incentive for improving quality in the domestic wool industry?

Mr. **Gardner**. No, I do not believe that is correct. And the reason I do not is that there will be an incentive to produce a higher quality product. It will be exactly the same as the incentive to produce a higher quality product in any industry. That is to say, if you produce a higher quality product, the market will pay a premium for that product.

Senator **Conrad**. Would you say that this program proposal would reduce the incentive to improve quality?

Mr. **Gardner**. If you want to have an incentive for quality that is over and above the market incentive, then we do not have that anymore. It is true, that we are relying just on the market incentive.

Senator **Conrad**. Let me summarize the administration's wool program proposal as I see it. This is a program that would simultaneously reduce producer's income, reduce supply, increase price to consumers, and reduce incentive to improve quality in the domestic industry. In baseball, after three strikes you are out. We usually do not give players four strikes. This program has four strikes against it.

Let me turn to the honey proposal that has been advocated by the administration. In your judgment, under the administration's proposal, what would happen to the domestic beekeeping industry, especially pollination services, in the face of greatly expanded foreign honey production?

Mr. **Gardner**. I cannot leave the wool thing quite as you left it with the three strikes and we are out, or four. That is not to say that there will not be some reductions in producers' receipts, but as I said before, I do believe that our proposal is better for agriculture as a whole and for the country than what we have had, because if you add up the way the wool sector would work before and after, I think we would have a net gain on this proposal.

I would just urge you, I know we are not going to agree here today, but I urge you to take a look at how this program fits in with the other programs and what the overall picture for gains and losses out of it will be.

Senator **Conrad**. Believe me, I have looked at it and I have summarized how I view it. The decade of the 1980's has not been a pretty time for farm income. I know people say that farm income is at record levels. What they forget about is inflation. If you take out inflation, the decade of the 1980's is the worst 10-year period for farm income since they started keeping records in 1914.

Somebody is going to have to realize what we are doing under farm programs such as this one, because what we are doing is decimating the agricultural base. And if anybody doubts it, if you think I am being rhetorical, just come visit with me at any of my community forums and go town to town in my State.

We just had the chief business organization in my State put out a publication entitled "Is North Dakota Dying?" What we have is slow motion economic strangulation. And you guys come in here with a proposal to reduce another sector's income. I will tell you, I am going to fight it with every ounce that I have in me. There is only one reason for that. People are getting very badly hurt in the rural parts of the country. If you go to my State, you will find that the economic condition is devastating.

Time is short, maybe we could go back to honey and you could give me your best judgment on the question of what happens to the domestic beekeeping industry, especially pollination services, in the face of greatly expanded foreign honey production? What would be your analysis of what happens under the administration's proposal?

Mr. **Gardner**. Well, there is nothing in the administration's proposal that is going to generate expanded honey imports. Where we have had problems with imports is where we have held our honey under loan and created an import market.

Senator **Conrad**. So you do not anticipate that pollination services would stagnate under this proposal that you have advocated?

Mr. **Gardner**. Not at all.

Senator **Conrad**. I think we will have a chance to hear alternative opinions from those——

Mr. **Gardner**. Can I say why I think that?

Senator **Conrad**. Certainly.

Mr. **Gardner**. In the case of the honey program, we are providing the same level of support that we have had in current law. It is just that we want to switch it to the target price and deficiency payment form as opposed to the loan rate.

Senator **Conrad**. But let us be blunt. This is a one-way escalator going down. You know it, I know it, everybody sitting here knows it. We go from the ground level onto the first step of the escalator and the escalator is going no place but down. Is that not true?

Mr. **Gardner**. But the honey loan rate has been on the escalator, if you like. It has come down, as I mentioned, more than other commodities.

Senator **Conrad**. But is not this proposal to put it on the fast escalator going down?

Mr. **Gardner**. But honey has been on a faster escalator. Honey has come down more in its loan rate than the other commodities since 1985 and we are not proposing to make it go faster yet.

Senator **Conrad**. We are proposing to put it in, on the administration's proposal, on a basis that will get us the automatic ratchet. What we will see is the automatic ratchet down as we marry the administration's proposal with what we do under the administration's proposal on budget. And you put the two together, again I do not know where it goes in terms of income, but down.

Mr. **Gardner**. I do not see why you say that because honey will now be similar to the structure of the programs for other commodities. Now even if it maintained its current structure, the honey program would be subject to the same budgetary pressures of other commodities. But as I say, because the honey loan rate has come down faster than the target prices, I do not see why you would anticipate that honey would do worse under this proposal.

Senator **Conrad**. I think, at this point, given the hour and the number of witnesses that we have, we should turn to those witnesses. Mr. Gardner, I thank you very much for your appearance here this morning. We will look forward to working with you as we attempt to put together a 1990 farm bill.

Mr. **Gardner**. Thank you.

[The prepared statement and attached tables and chart of Mr. Gardner follow:]

STATEMENT OF
BRUCE GARDNER
ASSISTANT SECRETARY FOR ECONOMICS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE
THE SENATE AGRICULTURE SUBCOMMITTEE ON AGRICULTURE PRODUCTION AND STABILIZATION OF PRICES
MARCH 2, 1990

Mr. Chairman and Members of the Subcommittee, I welcome the opportunity to review the Administration's 1990 Farm Bill proposals for wool and mohair and honey. In developing our proposals we considered the performance of the wool and mohair and honey industries under the Food Security Act of 1985, as well as the current situation and outlook for the commodities. As I go over these points, I think you will see the basis for our proposals.

Wool and Mohair

Wool accounts for about 5 percent of world textile fiber production. Wool production is dominated by Australia, which accounts for about one-third of total output. The United States produces slightly more than 1 percent of the world total. Mohair is a specialty fiber, produced largely in South Africa and the United States. Mohair accounts for a fraction of 1 percent of world textile fiber production.

The wool and mohair program was authorized by the National Wool Act of 1954 on the grounds that wool was an essential and strategic commodity that was not produced in the United States in sufficient quantities and grades to meet domestic needs. It is the only commodity program with the stated purpose of increasing production through incentive payments to producers.

The incentive payment rate for shorn wool and mohair is based on the percentage needed to raise the national average market price for each of the commodities to its support level. This formula is supposed to provide an incentive for producers to market higher quality wool and mohair. Higher quality fiber brings a higher market price and consequently a larger payment rate per pound sold.

Wool is no longer classified as a strategic commodity. And, despite support prices averaging 160 percent of market prices since 1955, U.S. wool production has fallen sharply, as it has been replaced by man-made fibers and imports of wool textile and apparel products.

In fact, the support price for shorn wool has exceeded the average market price in 34 of the 35 years that have passed since the 1954 Act was implemented--1973 was the exception.

The domestic wool industry has also been supported through tariffs on imports of textile and apparel products and through tariffs on imports of the finer grades of raw wool, which compete with the bulk of U.S. production. Yet, in 1989, U.S. shorn wool production was 63 percent less than production in 1955. And, as in 1955, the United States continues to import more raw wool than we produce, a situation that makes wool unique among our supported commodities.

Since 1983, Government payments under the wool program have usually exceeded the farm value of the shorn wool produced. In 1985 and 1986, Government payments were about double the farm value of production. Wool prices were sharply higher in 1987 and 1988 because of strong domestic and overseas demand. As a result, Government payments in 1988 were at an 8-year low. However, prices have since weakened, and monthly U.S. farm prices for shorn wool have been below year-earlier levels for almost a year. The payment rate for 1989 has not been announced, but it will be well above the 1988 rate.

The outlook for wool in 1990 is not very optimistic. We think prices will weaken further because of growing Australian stockpiles and large yarn inventories in key consuming countries in Europe and in Japan. USDA recently announced a 1990 support price of $1.82 per pound for shorn wool, 5 cents above the 1989 level. This combination of an expected lower farm price and an increase in the parity-based support price means that a larger portion of producers' wool revenues in 1990 will come from the Government.

The Wool Act requires that mohair be supported at a level not more than 15 percent above or below the percentage of parity at which shorn wool is supported. Mohair currently is being supported at 85 percent of the wool parity percentage, or $4.53 per pound, nearly 6 cents less than 1989.

Foreign market developments are critical for mohair because 90 percent of U.S. output is exported. Although mohair accounts for only one pound out of every 100,000 pounds of total fiber processed in domestic textile mills, we rank second in world mohair production, trailing only South Africa, and we account for around a third of world mohair exports.

U.S. mohair production--more than 80 percent is produced in Texas--has fallen by more than half since the mid 1960's. However, the U.S. industry has made gains in recent years due to strong fashion demand for mohair and a decline in South African production and exports. The number of Angora goats clipped for mohair has risen 60 percent since 1980. During the late 1970's to the mid 1980's mohair prices were strong, usually above or just under the support price.

Mohair prices have dropped steadily since 1984. Government payments during 1986-88 alone account for more than half of the total amount of payments made since 1955. Although we do not have the final average U.S. producer price for mohair for calendar 1989, indications are that the payment rate will increase around 15 percent. During 1990, U.S. and foreign supplies of mohair may decline slightly, market prices may show a modest increase, and the payment rate may decline.

Wool and mohair support prices are based on a moving average of a parity index of prices paid by producers. As a result, wool and mohair support prices have risen since 1985 while support prices for nearly all other supported commodities have fallen.

Wool and mohair program outlays increased sharply in the 1980's from $30-40 million to $100-150 million. Outlays peaked in FY 1987 at $152 million and are projected to remain in the $100-120 million range over the next few years. Unlike other commodity payments, wool and mohair payments per individual are not limited and about 15 percent of total payments are for more than $50,000. About 6,000 producers or 5 percent of all producers receive nearly 80 percent of total payments. The majority of producers receive less than $100 per year.

For the 1990 Farm Bill, we propose replacing formula-derived support prices with a target price/deficiency payment program. Under our proposal, 1991 target prices for wool and mohair would be set at 90 percent of their respective 1985 support prices. This would put wool and mohair at par with the program crops, soybeans, honey, and dairy, all of which experienced support reductions of 10 percent or more during 1986-90. Thereafter, target prices for wool and mohair would be adjusted to keep them in line with target prices of other target price commodities. Payments would be based on pounds of fiber produced rather than on net sales proceeds. All producers would receive the same per-pound payment rate, which would equal the difference between the target price and the average price received by producers. Finally, we propose that wool and mohair payments be subject to the same combined $250,000 limit per person in effect for other commodities.

Honey

The price support program for honey was authorized by the Agricultural Act of 1949. The stated purpose of the program is to encourage beekeepers to remain in business in order to maintain the pollination of fruit, vegetable, and other agricultural crops. The price of honey is supported because no one has found a practical way of supporting beekeepers through payments for pollination services. For most beekeepers the receipts from sales of honey and beeswax are much greater than pollination fees. The main participants in the honey price support program are commercial and large part-time beekeepers, who represent less than 6 percent of all beekeepers, and who account for most honey production.

The Food Security Act of 1985 and subsequent legislation amended the 1949 Act to make significant changes in the honey program. First, the parity formula was dropped and progressively lower support prices were established for the 1986-90 crops. The 1986 national average loan rate was set at 64 cents per pound, down from 65.3 cents for the 1985 crop. The average loan rates per pound were 61 cents for 1987 and 59.1 cents for 1988. The loan rate for the 1989 crop is 56.36 cents per pound and the loan rate for the 1990 crop is slated to fall 5 percent from the 1989 rate. Thus, between 1985 and 1989 the support level fell 14 percent.

Second, a lower loan repayment option was provided for the 1986-90 crops. This option, when implemented by the Secretary of Agriculture, allows a producer to repay a loan at a level that is expected to minimize the number of loan forfeitures, not result in excessive total stocks of honey, reduce costs incurred by the Government in storing honey, and maintain the competitiveness of honey in domestic and export markets.

Conditions in the market or price-support program govern the changes in the loan repayment levels. For the 1989 honey crop, the loan repayment levels are 65 to 70 percent of the price support level, depending on the color and class of honey.

When honey support prices exceeded average domestic prices in the early 1980's, U.S. producers found it profitable to forfeit honey to the Government. Nearly two-thirds of the U.S. honey crop in 1984 was acquired by the Government. Packers and food manufacturers found it economical to import lower priced honey for domestic use. Imports increased sharply from 77 million pounds in 1981 to 138 million in 1985. Since the 1985 Act, less honey has been forfeited to the Government because of the lower loan repayment option. Imports have dropped from about half of domestic use in 1985 to 20 percent in 1988.

Honey production fell sharply in 1989 because of dry weather in the Dakotas and the midwest and extreme wetness in Florida and California. As a result, domestic market prices rose, loan repayments exceeded forfeitures, and the CCC inventory declined. Budget outlays were lower in FY 1989 but will likely rise in the future as honey production rebounds.

Honey production in FY 1990 and FY 1991 may be up about a fourth from the extremely low 1989 crop. We expect commercial use of honey to increase, as honey donations remain small and lower market prices and loan repayment levels move honey into commercial channels.

Although the honey program was made more market-oriented by the 1985 Act, we think additional reforms are needed. For example, the number of loans made under the program has increased significantly since 1985 due to the lower loan repayment provision. More than 90 percent of the 1988 honey crop was put under loan and outlays reached a record $100 million in FY 1988.

This experience has convinced us that price support loans are not the most effective means to support incomes of beekeepers. The Government has to determine support prices and repayment levels while producers must pledge honey as collateral for price support loans and then repay the loan at the lower loan repayment level in order to receive maximum program benefits. We believe a target price/deficiency payment program would be a better approach.

We think the honey program should be changed to provide income support more efficiently. Our proposal for the 1990 Farm Bill has these key features: (1) a target price set at the 1990 price support level and adjusted thereafter in line with changes in target prices of other target price commodities; (2) a loan rate set at 75 to 85 percent of the average market price during the previous five years, excluding the high and low years; (3) continuation of the discretionary provision for a loan repayment rate below the loan rate; and (4) payments and loan repayment benefits subject to the combined $250,000 limit per person.

We think the same level of income support can be provided at less Government cost under our proposal simply because there would be fewer loan outlays and fewer forfeitures to the CCC. Our honey program proposal gives Congress an opportunity to reduce spending without reducing Government income support for beekeepers.

That concludes my testimony Mr. Chairman. I will respond to any questions you or other Members may have.

U.S. WOOL SUPPLY, USE AND PRICE

	1986	1987	1988	1989P
	- - - - Million clean pounds - - - -			
Beginning Stocks, Jan. 1	50.6	46.8	45.3	55.9
Production	45.3	45.3	47.8	48.0
Imports	97.0	105.1	96.7	106.9
Unaccounted	-8.6	-8.1	0	0
Total Supply	184.3	189.1	189.8	210.8
Mill Use	136.7	142.8	132.7	141.4
Exports	0.8	1.0	1.2	1.2
Total Use	137.5	143.8	133.9	142.6
Ending Stocks, Dec. 31	46.8	45.3	55.9	68.2
	- - - - - Cents per pound - - - - -			
Wool Farm Price	66.8	91.7	138.0	115.0
Wool Support Price	178.0	181.0	178.0	177.0
	- - - - - Million dollars - - - - -			
Farm Value of Prod.	56.3	77.0	124.6	103.0
Government Payments 1/	107.1	85.1	41.4	64.5 2/

P = Preliminary, as of February 1990. 1/ Includes unshorn lamb payments 2/ Payment rate for 1989 has not been announced.

U.S. MOHAIR SUPPLY, USE AND PRICE

	1986	1987	1988	1989P
	- - - Thousand clean pounds - - -			
Beginning Stocks, Jan. 1	1,304	1,541	1,778	1,404
Production	13,510	13,990	13,170	13,700
Imports	13	7	59	10
Unaccounted	1,436	352	975	-1,300
Total Supply	16,263	15,890	15,982	13,814
Mill Use	100	100	200	800
Exports	14,622	14,012	14,378	10,700
Total Use	14,722	14,112	14,578	11,500
Ending Stocks, Dec. 31	1,541	1,778	1,404	2,314
	- - - - Dollars per pound - - - - -			
Mohair Farm Price	2.51	2.63	1.89	1.70
Mohair Support Price	4.9	4.95	4.69	4.59
	- - - - - Million dollars - - - - -			
Farm Value of Prod.	44.7	48.4	32.8	30.6
Government Payments	42.7	36.2	48.4	50.4 1/

P = Preliminary, as of February 1990. 1/ Payment rate for 1989 has not been announced.

U.S. HONEY SUPPLY, USE AND PRICE

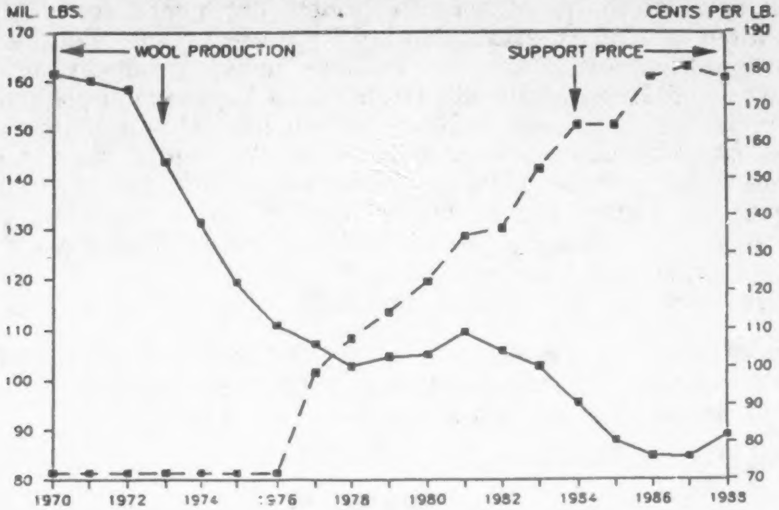
	Fiscal Year			
	1986	1987	1988	1989
	- - - - - Million pounds - - - - -			
Beginning Stocks, Oct. 1	223.1	254.2	197.7	176.8
Production	200.4	226.8	214.1	169.3
Imports	130.4	66.5	52.6	73.1
Total Supply	553.9	547.5	464.4	419.2
Domestic Use	292.3	336.9	274.5	280.8
Exports	7.4	12.9	13.1	11.8
Total Use	299.7	349.8	287.6	292.6
Ending Stocks, Total	254.2	197.7	176.8	126.6
CCC Inv.	140.4	57.0	38.9	56.9
Outstd. Loans	137.5	108.7	117.9	59.7
Commercial	30.0	32.0	20.0	10.0
	- - - - - Cents per pound - - - - -			
Domestic Market Price	51.1	50.3	50.1	54.3
Support Price	64.0	61.0	59.1	56.4
	- - - - - Million dollars - - - - -			
Net Budget Expenditures	89.4	72.6	100.1	41.7

DISTRIBUTION OF WOOL AND MOHAIR PAYMENTS. 1988 MARKETINGS

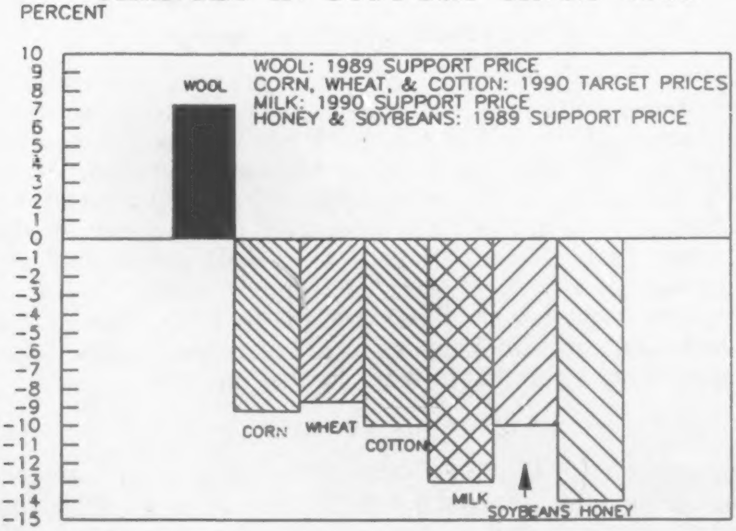
Shorn Wool &/or Unshorn Lambs Payment Category	# of Payments	% of Total	Cum Total	Total $$ Value	% of Total	Cum Total
< $100	56,242	64.0		2,074,157	5.5	
100.1 - 500	22,438	25.5	89.5	4,814,070	12.7	18.2
500.01 - 1,500	5,467	6.2	95.7	4,601,876	12.1	30.3
1,500.01 - 5,000	2,349	2.7	98.4	6,208,762	16.3	46.6
5,000.01 - 10,000	749	0.9	99.3	5,281,947	13.9	60.5
10,000.01 - 25,000	536	0.6	99.9	8,091,737	21.3	81.8
25,000.01 - 50,000	128	0.1	100.0	4,185,876	11.0	92.8
50,000.01 - 75,000	22	0.0	100.0	1,366,981	3.6	96.4
75,000.01 - 100,000	7	0.0	100.0	596,608	1.6	98.0
100,000.01 - 250,000	5	0.0	100.0	783,853	2.1	100.1
> $250,000	0	0.0	100.0	0	0.0	100.1
TOTAL	87,943	100		38,005,867	100	

Mohair Payment Category	# of Payments	% of Total	Cum Total	Total $$ Value	% of Total	Cum Total
< $100	5,081	38.7		213,956	0.4	
100.01 - 500	3,751	28.6	67.3	858,279	1.8	2.2
500.01 - 1,500	1,260	9.6	76.9	1,108,707	2.3	4.5
1,500.01 - 5,000	1,258	9.6	86.5	3,617,158	7.5	12.0
5,000.01 - 10,000	697	5.3	91.8	5,008,576	10.3	22.3
10,000.01 - 25,000	593	4.5	96.3	9,297,464	19.2	41.5
25,000.01 - 50,000	287	2.2	98.5	9,723,797	20.1	61.6
50,000.01 - 75,000	106	0.8	99.3	6,457,000	13.3	74.9
75,000.01 - 100,000	39	0.3	99.6	3,377,049	7.0	81.9
100,000.01 - 250,000	43	0.3	99.9	6,087,132	12.6	94.5
> $250,000	7	.01	100.0	2,690,679	5.6	100.1
TOTAL	13,122	100		48,439,797	100	

WOOL PRODUCTION AND SUPPORT PRICES



CHANGES IN SUPPORT SINCE 1985



HONEY PRODUCER AND USER VIEWS

Senator **Conrad**. We will now have panel No. 2, which will be honey producer and user views. I call to the witness table Mr. Stephen Klein, a Minnesota honey producer; Joe Holt, Jr., a member of the American Honey Producers; Don Shenefield of the National Honey Board, an Indiana honey producer; and Steven Darrow of Green Mountain Orchards, a Vermont apple grower.

Welcome. It is good to have you all here this morning. Again, if you can summarize your testimony, we would then have some chance for questions. I appreciate very much the participation of all of you. I know some effort is required to put together testimony, to think through these issues, and to come to Washington. We very much appreciate what you have done.

Mr. Klein, do you want to proceed?

STATEMENT OF STEPHEN KLEIN, COMMERCIAL HONEY PRODUCER, MARSHALL, MN; ON BEHALF OF THE AMERICAN BEEKEEPING FEDERATION, JESSUP, GA

Mr. **Klein**. Thank you.

INTRODUCTION

Mr. Chairman, I appreciate the opportunity to appear before the subcommittee to testify on the 1990 farm bill on behalf of the American Beekeeping Federation. The Federation represents nearly 2,000 members who are involved in every aspect of the industry and are spread throughout every State in the Union.

THE PRICE SUPPORT PROGRAM

Before the 1985 farm bill, the price support program for honey was operated through nonrecourse loans and purchase agreements. Inflation gradually pushed the parity-based loan rates above the market price. As beekeepers chose between the loan rate and the market price, the CCC began to acquire growing amounts of honey until 1984 in which the CCC acquired 98 percent of the honey placed under loan. Since this represented 64 percent of the domestic honey production a stream of imports quickly grew until we were importing over 138 million pounds in 1985. This alarmed both the Government and beekeepers as Government expenditures grew and domestic honey markets were lost to imports.

FOOD SECURITY ACT OF 1985

The enactment of the 1985 farm bill changed the honey program to a marketing loan approach which include as its features a mandated price support and a loan redemption rate set at a level to compete with imports and reduce forfeitures. The impact was positive and timely. Imports began an immediate reduction from 138 million pounds in 1985 to 56 million in 1988. CCC takeovers likewise began a quick drop and in 2 years were reduced by nearly 50 percent. In our own operation we have not forfeited any honey since the 1985 farm bill. Producers from Minnesota, my home State and one of the top five producing States, as well as producers from all across the country feel this program has demonstrated its effectiveness in accomplishing the goals perceived in 1985. I cannot emphasize enough the feeling of beekeepers across the country that this is the best format for the honey program.

THE ADMINISTRATION PROPOSAL FOR THE HONEY PROGRAM IN THE 1990 FARM BILL

The administration proposal for the honey program in the 1990 farm bill, while appearing to be equally effective as the current program, contains some serious drawbacks.

PROPOSAL CONTAINS SOME SERIOUS DRAWBACKS

First, it discourages aggressive marketing of honey since sales above the buy-back rate will raise the average market price and reduce the deficiency payment. There will be no net gain despite added effort on the seller's part.

Secondly, the task of setting an average market price will be quite difficult. Most commodities are widely traded with openly quoted prices. Honey transactions, on the other hand, are mostly private. Some producers sell at bulk rates while others produce and pack, selling at wholesale and retail levels. This variation of marketing can easily distort calculations and a small miscalculation could prove disastrous to many producers.

Senator CONRAD. Mr. Klein, could I interrupt you right there? Mr. Gardner indicated that their proposal would be just as good for honeykeepers' income as the current program. Do you agree or disagree, based on statements you have just made?

Mr. KLEIN. I will have to disagree with that, Mr. Chairman. If I may expound a little bit on that, currently the USDA sets a buyback rate for honey. At our present level of marketing of honey in this country, the market price is slightly over that buy-back rate. If a producer can sell at that price, that is slightly over, that is an additional amount of income that the producer will gain.

Under the administration's proposal, that additional income would work against the deficiency payment and basically wash out with a zero net gain for added marketing incentives.

Senator CONRAD. And the fact is the result of that change would be to reduce honey producers' income, would it not?

Mr. KLEIN. That is correct.

Senator CONRAD. Thank you.

Mr. KLEIN. Thirdly, the National Honey Board, a marketing order board established by Congress in 1986, may be impacted in a very negative way. By eliminating incentive for sales above buyback rates, funding for the board, which is a mandatory assessment with a refund option, may be greatly reduced. The National Honey Board, while relatively new, has had a positive impact on honey usage. The 1988 retail sales had an 11 percent increase, reversing a recent downward trend. Much credit must be given to their efforts. After a close look at the administration proposal, the industry feels a continuation of the current format is the wisest course for allowing incentives, increasing usage and reducing Government expenditures in the future.

CONCLUSION

In the years the marketing loan concept has been in effect, the industry has recommended some areas to be fine-tuned to reflect the program's effectiveness. Honey has taken by far the largest share of cuts, on a percentage basis, in comparison to other commodities (see table). Honey has paid its dues in budget reduction and the industry proposes a freeze at the 1989 loan level.

The 1985 farm bill has shown its effectiveness by reducing imports and forfeitures while retaining a viable pollination source for many other segments of agriculture. We would like to emphasize our belief that this program is working well for the industry and we ask your support for a continuation of the current honey program format.

This concludes my prepared testimony. I want to thank you for the opportunity to share my views with you and I will be pleased to respond to any questions.

[The table referred to by Mr. Klein in his testimony follows:]

1985 FOOD SECURITY ACT

Reductions for honey:

Year	Average loan rate	Reduction cents per pound	Additional reductions 1988 budget reconciliation
1985	65.3		
1986	64.3	.0100	
1987	62.3	.0200	.0200
1988	59.1	.0312	.0075
1989	56.36	.0296	.0050
1990	53.54	.0282	.0025

Comparison of cuts with other commodities:

	Percent
Wheat	8.67
Corn	9.24
Cotton	10.00
Rice	10.00
Soybeans	10.00
Milk	13.00
Honey	18.10

Senator **Conrad**. Thank you very much, Mr. Klein.

Before we go to Mr. Holt, I want to acknowledge the presence of my former colleague, Senator Melcher of Montana, who for years was a valued colleague on this committee. I always viewed him as one of the most knowledgeable members of the Senate Agriculture Committee. I certainly learned a great deal from him, and I am very pleased to see you here today, John.

Mr. **Melcher**. Thank you very much, Mr. Chairman.

Senator CONRAD. Mr. Holt.

STATEMENT OF JOE HOLT, JR., COMMERCIAL HONEY PRODUCER AND POLLINATOR, RICHLAND, WA; ON BEHALF OF THE AMERICAN HONEY PRODUCERS ASSOCIATION

Mr. HOLT. Thank you.

A VIEW FROM THE TRENCHES

My name is Joe Holt, Jr. I am a beekeeper from Richland, Washington, and I am appearing here on behalf of the American Honey Producers Association. I greatly appreciate the opportunity to testify to the committee. I have entitled my testimony today "A View From the Trenches," for I am out there every day trying to make a living and provide a service to American agriculture. My father and I have a beekeeping business and we both live in Richland, Washington. We presently keep around 5,000 colonies of bees. We have 8 full-time employees and hire 12 part-time helpers in the summer. About 50 percent of our business income comes from pollination rental fees. These are from crops we pollinate in Washington, Oregon, and California. The remaining 50 percent of our income comes from honey.

THE BEEKEEPING INDUSTRY IS VITAL TO AMERICAN AGRICULTURE

The beekeeping industry is vital to American agriculture. Roughly 140 cultivated crops either require or benefit from bee pollination. More than a third of the food we eat requires bee pollination. A study last year by Cornell University placed the value of bee pollinated crops in the United States at about $10 billion. The farm value of bee pollinated crops grown in Washington State in 1986 approached $700 million. Undoubtedly, bees are indispensable pollinators.

THE AMERICAN HONEY PRODUCERS ASSOCIATION RECOMMENDS CONTINUATION OF THE HONEY MARKETING LOAN PROGRAM CONTAINED IN THE 1985 FARM BILL WITH MINOR MODIFICATIONS

To keep American agriculture viable, the American Honey Producers Association recommends continuation of the honey marketing loan program contained in the 1985 farm bill with minor modifications. The program has worked well—program costs have decreased by 50 percent from $80 million in 1985 to $40 million in 1989; CCC stocks have been reduced drastically, and domestically produced honey is back on store shelves and no longer in Government warehouses.

THERE ARE TWO CHANGES THAT WE ARE SEEKING

First, we recommend that the loan rate be maintained at current levels or perhaps increased. In the last 5 years, the honey loan rate has been reduced by 18 percent. This reduction coupled with increased costs of production has begun to impact the industry severely.

Two, bee pests, the tracheal and varroa mites, have recently spread across the United States and control measures have added expenses to our already strained budget. We understand also that the Africanized bee will be crossing the United States-Mexican border shortly. While we are confident that we can handle this challenge, it will create additional expenses to our industry.

RECOMMEND THE FARM BILL PROVIDE ASSISTANCE FOR HONEYBEE LOSSES DUE TO THESE MITES AND THAT THE MEMBERS OF THIS COMMITTEE SUPPORT INCREASED FUNDING IN THE AGRICULTURE APPROPRIATION BILL FOR MITE RESISTANT, HONEYBEE BREEDING PROGRAMS, AND HONEYBEE MITE CHEMICAL TREATMENTS

We also recommend that any disaster legislation included in the farm bill provide assistance for honeybee losses due to these mites and that the members of this committee support increased funding in the agriculture appropriation bill for mite resistant, honeybee breeding programs, and honeybee mite chemical treatments. Without your support there will be a serious shortage of honeybees in the United States in the near future.

MITES CAUSE BUSINESS TO SUFFER LOSSES—NO COMPENSATION OR INSURANCE FOR THIS LOSS

In the 1970's, my father and I kept as many as 9,000 colonies. In the 1980's, our colony numbers have steadily declined to our present 5,000 hives. Last year, our bees were devastated by honeybee tracheal mites. We lost over 4,000 colonies and at this same time last year had only 1,900 hives left. This loss severely affected our business and our ability to pollinate our customers crops. All other beekeepers I know from the State of Washington suffered losses ranging from 25 to 90 percent of their bees from these mites also. Some are now out of business. Our estimated losses from mite damage last year was around $150,000. This is about half of our annual operating budget. We received no compensation or insurance for this loss as none is available. At this rate, we will be out of business in 2 years.

The U.S. honey crop this year was well below normal. This was partly due to the drought, but I believe also due to fewer producing colonies in the United States. This spring I have noticed many almond orchards in California without bees for pollination. Many farmers have commented to me how difficult it is to find adequate bees for their crops. Our problems with mites, pesticide losses, reduction in pasture, and loss of government support all spell a severe decline in the bee industry.

CONCLUSION

We see no reason for a change in the current honey program. It has worked well. This country needs beekeepers to keep American agriculture healthy and viable. We can import food and honey but we cannot import pollination. Without your support for the program we have recommended, we can foresee a severe shortage of honeybees in the United States in the near future. This will surely affect seriously American agriculture. Thank you.

[The prepared statement of Mr. Holt follows:]

Testimony of

Joe Holt, Jr.
2419 Swift Boulevard
Richland, Washington 99352

in behalf of
The American Honey Producers Association

before the Agricultural Production
and Stabilization of Prices Subcommittee
U.S. Senate Agriculture, Nutrition,
and Forestry Committee

March 2, 1990

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There are two changes that we are seeking. First, we recommend that the loan rate be maintained at current levels or perhaps increased. In the last five years, the honey loan rate has been reduced by 18 percent. This reduction coupled with increased costs of production has begun to impact the industry severely. Two bee pests, the tracheal and varroa mites have recently spread across the U.S. and control measures have added expenses to our already strained budget. We understand also that the Africanized bee will be crossing the U.S.-Mexican border shortly. While we are confident we can handle this challenge, it will create additional expense to the industry.

We also recommend that any disaster legislation included in the farm bill provide assistance for honeybee losses due to these mites and that the members of this committee support increased funding in the agriculture appropriation bill for mite resistant, honeybee breeding programs, and honeybee mite chemical treatments. Without your support there will be a serious shortage of honeybees in the U.S. in the near future.

In the 1970s, my father and I kept as many as 9000 hives. In the 1980s, our colony numbers have steadily declined to our present 5000 hives. Last year, our bees were devastated by honeybee tracheal mites. We lost over 4000 colonies and at this time last year had only 1900 hives. This loss severely affected our business and our ability to pollinate our customers crops. All other beekeepers I know from Washington State suffered losses ranging from 25% to 90% of their bees from mites also. Some are now out of business. Our estimated losses from mite damage was around $150,000. This is about half of our annual operating budget. We received no compensation or insurance for this loss as none is available. At this rate, we will be out of business in two years.

The U.S. honey crop this year was well below normal. This was partly due to drought, but I believe also due to fewer producing colonies in the United States. This spring I have noticed many almond orchards in California without bees for pollination. Many farmers have commented to me how difficult it is to find bees for their crops. Our problem with mites, pesticide losses, reduction in pasture, and loss of government support, all spell severe decline in the bee industry.

The Administration has recommended a major revision of the honey program. It is seeking a target price program for honey comparable to the program for other program crops but with the loan rate depressed to 75 to 85 percent of the market price for the past five years, excluding the high and low years. This would result in approximately a 1/3 reduction from the current loan level. The balance of support would be made up of deficiency payments most of which would be received at the end of the year.

We are opposed to this proposal. It loses for us the opportunity to use the support program to assist in the orderly marketing of honey. The current program enables producers to put the honey under loan when it is produced and market it in an orderly fashion throughout the year. It results in higher economic returns to producers. In the typical target price program, producers receive the bulk of the program benefits at the end of the marketing year. In addition, the loan rate is set at a level substantially higher level - much closer to the target price - than has been recommended in the USDA honey proposal.

We see no reason for a change in the current program which has worked so well. This country needs beekeepers to keep American Agriculture healthy and viable. We can import food and honey, but we cannot import pollination. Without your support for the program we have recommended, we can foresee a serious shortage of honeybees in the U.S. in the near future with disastrous effects on American Agriculture.

This concludes my testimony. I thank you for the opportunity to share my views with you and will be pleased to answer any questions.

Senator **Conrad**. Thank you, Mr. Holt.

You heard the interchange I had with Mr. Gardner about the effect on pollination in this country if you alter the program. I do not think he, perhaps, understood the thrust of the question.

Obviously, if you do something that adversely affects the honey industry in this country, you get reduced number of colonies, and that adversely affects pollination. Is that not correct?

Mr. **Holt**. Correct.

Senator **Conrad**. Obviously, all of these things are related. All of them are tied together. If you hurt the honey program, you hurt the number of colonies, you hurt pollination. It is not just the honey industry that is going to suffer. We are going to hurt all elements of agriculture that are dependent on pollination services.

Let me just go to a question you raised. The mite problem is far more severe than is generally recognized here. Would you say that is correct?

Mr. **Holt**. Yes, sir.

Senator **Conrad**. We have a growing problem that could significantly impact honey production and colony numbers in this country in the next several years.

Mr. **Holt**. I believe it is starting to show up now, sir.

Senator **Conrad**. Could you tell me what the effect on the wild bee population could be, in your view?

Mr. **Holt**. They are just as susceptible to mites as domestically kept bees. They would die off except for the African bee.

Senator **Conrad**. Except for the African bee?

Mr. **Holt**. Yes, sir, they tend to swarm fast. I do not have much experience with them, but from what I have read they swarm so fast that apparently the mites do not affect them that much. But European stocks, which we all maintain, are very susceptible to these mites.

Senator **Conrad**. How would you describe the threat of the mites? Would you say the threat is under control or would you say it is growing?

Mr. **Holt**. It is growing. There are a couple of control measures but they basically do not work. In discussions among us beekeepers the No. 1 topic is mites. What do we do about them, what works, what can work, how many colonies have you lost.

Senator **Conrad**. So Congress needs to understand that we are talking about a serious threat?

Mr. **Holt**. Yes, sir.

Senator **Conrad**. Thank you very much, Mr. Holt.

Mr. Shenefield.

STATEMENT OF DON SHENEFIELD, COMMERCIAL HONEY PRODUCER, LaFONTAINE, IN; ON BEHALF OF AMERICAN BEEKEEPING FEDERATION, INC., JESSUP, GA

Mr. **Shenefield**. Thank you.

INTRODUCTION

On behalf of the American Beekeeping Federation, I want to thank you for the opportunity to present our views on the honey loan and price support program of the Food Security Act of 1985.

A CONTINUATION OF THE CURRENT PROGRAM WILL RESULT IN A MORE STABLE AND PREDICTABLE FUTURE FOR THE HONEY INDUSTRY

The current program has resulted in decreased government costs and has returned honey to the market place where it belongs. A continuation of the current program will result in a more stable and predictable future for the honey industry. Presently, we are faced with three exotic pests that pose a substantial—and I want to emphasize substantial—economic threat, and we cannot afford honey price instability at this time.

1985 FARM BILL

The effect of the 1985 farm bill on the United States honey producer has been astounding. The old parity-based program forced producers to forfeit large quantities of honey to the U.S. Department of Agriculture, resulting in higher costs to the taxpayers and loss of traditional markets.

The 1985 farm bill, with its loan buy-back provisions, has restored honey to the market place. It has provided honey producers with the needed incentive to effectively market their honey and possibly add a few cents per pound for their efforts. It has restored U.S. produced honey to the U.S. consumer where it belongs.

ONE ASPECT OF THE HONEY PROGRAM THAT CREATES CONCERN

One aspect of the honey program that creates concern is the steady decline of the support rate. We have lost 18 percent of the support level from 1985 to 1990, both in trade-offs and reductions. We find no comparable reductions in support rates for other commodities.

OPERATING PROBLEMS

Operating costs have increased during this period, as we all know, placing producers in a cost price squeeze. Add to this, the honeybee tracheal mite, the varroa mite and the Africanized bee, and you can see the situation we are in!

Senator CONRAD. Mr. Shenefield, could I stop you there? Could you just help me with the pronunciations of those mites? The tracheal mite, and what is the other one?

Mr. SHENEFIELD. Varroa.

Senator CONRAD. Varroa mite.

Mr. SHENEFIELD. Current treatment methods for honeybee tracheal and varroa mites, in the past 2 years is costing us an additional $10 to $12 per colony. We are figuring $5 for material and the additional cost is in labor and going from yard to yard, trucks, and so on. To this we must consider lost production, replacement bees, and lost pollination. The most serious loss, and I am speaking of Indiana, Michigan, Illinois, in the Midwest, will be to the smaller producer and the loss of feral or wild colonies of bees. I might add that in the Midwest we expect a 50 percent loss in pollination potential through loss of feral or wild bees. Our feral bees in Indiana right now have varroa mite. They have been tested and it has been found in them. It will destroy them.

Senator **Conrad**. Let me just stop you there as well. You just said something that I want to highlight—a shocking number. We can expect a 50 percent reduction in pollination potential as a result of these mites. That is the number that you cited?

Mr. **Shenefield**. Right.

Senator **Conrad**. You now have evidence that these mites are in Indiana?

Mr. **Shenefield**. Oh, yes. No doubt.

Senator **Conrad**. The history of this mite is it spreads rapidly, am I right?

Mr. **Shenefield**. Right, very rapidly, both through moving for pollination and naturally.

Senator **Conrad**. Thank you.

Mr. **Shenefield**. This loss could create havoc with our large intensive farming operations, which we have a lot of in Indiana, and this is at all levels, as well as our orchard, farm market and small farms to market operators.

THE BEST WEAPON

The best weapon against the Africanized honeybee we have is a healthy, strong, honey industry that has the knowledge and capability of handling these undesirable bees.

We appreciate the support of the USDA and various farm groups, such as the Farm Bureau, has given us. Continued support to the Agricultural Research Service is a must. The beekeeping laboratories certainly have no shortage of problems to address.

The National Honey Board has been highly successful in promoting honey at all levels. We have seen sales increases in all honey usage areas, especially for commercial grades which were losing markets steadily. We are now working to improve our overseas markets and perhaps improve the trade imbalance a bit.

We do not want to enter into any kind of program that might impair the Honey Board's very apparent success.

We appreciate this opportunity to express our views and look forward to cooperating with you on a successful new farm bill.

Thank you.

Senator **Conrad**. Thank you, Mr. Shenefield.

Mr. Darrow, welcome.

STATEMENT OF STEVEN DARROW, VICE PRESIDENT, GREEN MOUNTAIN ORCHARDS, PUTNEY, VT

Mr. **Darrow**. Thank you, Mr. Chairman.

INTRODUCTION

It is a pleasure to be here and my remarks will be brief. A lot of what I was going to say has already been covered.

My name is Steven Darrow. I am vice president of Green Mountain Orchards in Putney, Vermont. Green Mountain Orchards was founded by my grandfather in 1914 and enlarged by my father. My brothers and I now grow over 100,000 bushels of apples a year on approximately 250 acres. Additionally, we have 12 acres of blueberries. I also have kept honeybees myself. For over 70 years my family has depended on honeybee pollination, which is critical to apple and blueberry production.

THE NEED FOR HONEYBEE POLLINATION IS INCREASING

The need for honeybee pollination is increasing, due to a decline in wild pollinators, more intense land cultivation, and a trend to the use of dwarfing rootstocks and fruit, which allow more intensive planning and a higher production per acre. This increased demand for bees to pollinate our crops comes at a time when the honeybee colonies are declining in numbers.

Honeybee pollination is the cornerstone of American agriculture. Bees are like a catalyst. They are little things that you need at a crucial time to make it all happen. If you do not have them, nothing happens. We are talking about our food supply.

Our intensified agricultural system that allows U.S. farmers to produce the abundance of food, unrivaled in the world, is dependent upon the continued presence of large populations of healthy honeybees for crop pollination and seed production. Any threat to the well-being of the beekeeping industry also imperils many other agricultural enterprises, not only in Vermont but across the Nation.

Therefore, I would strongly urge you to continue the honey loan program at 1989 support levels. Thank you.

[The prepared statement of Mr. Darrow follows:]

STATEMENT OF

STEVEN DARROW
GREEN MOUNTAIN ORCHARDS
PUTNEY, VERMONT

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES

MARCH 2, 1990

My name is Steven Darrow. I am Vice President of Green Mountain Orchards in Putney, Vermont. Green Mountain Orchards was founded by my grandfather in 1914 and enlarged by my father. My brothers and I now grow over 100,000 bushels of apples a year on approximately 250 acres. Additionally, we have 12 acres of blueberries. I also have kept honey bees myself. For over 70 years my family has depended on honey bees pollination, which is critical to apple and blueberry production.

Vermont currently has 4,000 acres in apples, with an annual crop value of over $15 million. The annual value of the national apple crop is over $2 billion. As production has increased, so has the number of honey bee colonies needed per acre. This is due to a decline in wild pollinators, more intense land cultivation, and the trend toward use of dwarfing rootstocks which allow more intensive planting and a higher production per acre. This increased demand for bees to pollinate our crops comes at a time when honey bee colonies are diminishing in numbers, down from 5.4 million colonies in 1950-59 to 4.3 million in 1985.

A recent study published by Cornell University concluded that the value of increased U.S. crop yield and quality directly attributable to the honey bee totalled $9.7 billion in 1985. This figure does not reflect the immense value of dairy and livestock production which depends heavily upon the ready availability of alfalfa hay and alfalfa seed pollination by honey bees. Neither does it measure the value of honey bee pollination to the multi-billion dollar home gardening industry and to preservation of wildlife and natural ecosystems. It is estimated, for example, that more than 90 percent of U.S. beekeepers provide pollination for neighboring crops, orchards, gardens and woodlands without charging pollination fees. The scope of this uncompensated pollinating activity would be diminished substantially if beekeepers were not able to profit from honey.

Today, the honey industry within the United States faces the greatest threats in its history. The undermining of the domestic market by cheap imported honey, the impact of the damage done by tracheal and varroa mites, and threats posed by the imminent arrival of Africanized honey bees strain the resources and viability of U.S. beekeepers. The honey loan program is essential to provide the stable foundation that the honey industry needs to address these threats. plan for the future, and remain competitive and healthy in the interim. Our intensified agricultural system that allows U.S. farmers to produce the abundance of food unrivaled in the world is dependent upon the continued presence of large populations of honey bees for crop pollination and seed production. Any threat to the well-being of the beekeeping industry also imperils many other agricultural enterprises not only in Vermont but across the nation.

I, therefore, strongly urge you to continue the honey loan program at 1989 support levels. Thank you.

Senator **Conrad**. Thank you very much.

I have listened to your testimony and you present exceptionally good cases—very well prepared, intelligent, articulately given. It strikes me that the green eyeshade boys over at OMB tell USDA what kind of a honey program to send over here, and they do not have the foggiest notion what this means out in the real world. Not the foggiest notion.

I will bet you that no one at OMB understands the pollination potential and the pollination impact of the bee industry in this country and how critical it is to other crops. I wish sometimes that some of these fellows from OMB who make these decisions could be here and understand the effects of some of these decisions.

You present the real world which they are not dealing with. They seem to be handing down decisions from an ivory tower setting while you force us to see how these decisions function in the real world. I think the four of you have done an exceptional job of presenting your case. I want to thank you for it.

Any last comments by any of the four of you? Has anything been discussed that you want to add something to, or comment upon, other than what you have already shared with us?

Mr. **Holt**. I would like to see a program where you get some sort of help or assistance to restock our hives after these mites have wiped us out.

Senator **Conrad**. What is the cost? Maybe you could share cost-estimates with us, so that we would have these estimates in the record so people would understand the effect the administration's proposal is going to have on the agriculture industry. As I recall your statement, you went from 9,000 colonies and you are down to 5,000, am I correct?

Mr. **Holt**. Yes.

Senator **Conrad**. What does it cost to replace one colony?

Mr. **Holt**. $40. That is just the bees.

Senator **Conrad**. Just the bees?

Mr. **Holt**. That does not count any loss of pollination. At the time you are spending money to reestablish your colony, you are losing income and you are also not providing a service for pollination. So there is a triple domino effect.

Senator **Conrad**. Let us make that clear.

Mr. **Holt**. I would like to see a program to help us out, to make up that.

Senator **Conrad**. Could you explain the term "triple domino" so that our terms are clear in the record? What situation are you referring to when you make that statement?

Mr. **Holt**. Well, sir, if I have a contract for pollination, and most fruit pollination occurs in the spring, those people are depending on bees for that pollination. The mites seem to affect the colonies the worse in the spring. That is when they die off. So if I have a dead colony, I cannot fulfill my contract with a orchardist that is desperate to have bees in his orchard for pollination.

Also, at the same time, I have to buy bees to replace those bees. They might not be strong enough, still, to provide a pollination service, or they may not arrive in time to provide a pollination service.

What happened to us last year was we had to find other beekeepers to help us out, to provide pollination. It was a mess, a complete fiasco. It hurt the apple growers, it hurt the cherry growers, right down the line, all these crops to be pollinated. The domino effect started with the mite, then to us, went to try to find replacement bees. What are we going to do when there are not any replacement bees to obtain?

Senator CONRAD. Pretty sobering stuff, is it not?

Mr. HOLT. Yes, sir, after 40 years in business and you are faced with going out of business in 1 year.

Senator CONRAD. You have been in the business 40 years?

Mr. HOLT. I was born in it, sir. I am only 40 years old, but the business was established, I am a third generation beekeeper.

Senator CONRAD. Third generation?

Mr. HOLT. Yes, sir.

Senator CONRAD. Is this as tough as you have ever seen it?

Mr. HOLT. Yes, sir. And it is not getting any better.

Senator CONRAD. Could the others comment on that?

Mr. KLEIN. Mr. Chairman, I will have to agree with Mr. Holt. I am a second generation producer and I think this industry is presented with more problems currently than in my recollection and in my father's recollection. It is a real scary time for the industry. I do not think there is any doubt about that.

Senator CONRAD. Mr. Shenefield.

Mr. SHENEFIELD. I have been in business 30 years. We have a family operation. Three families make a living out of my operation, plus part-time help that we hire. For my son, who is in business, and my daughter, who is in business with me, and my grandsons, I think it is the most critical time. Certainly, we have more problems now than I have ever seen, in my 30 years experience.

I would like to leave something for them to go on. We have a successful business right now, but with the problems that we face, I am afraid the future is not very promising, especially for my grandsons.

Senator CONRAD. Mr. Darrow, would you want to comment? I know you have a distinguished family history. I am told that your father is a former commissioner of agriculture in Vermont?

Mr. DARROW. Yes, sir. I have always watched the bee industry carefully, because it is so pivotal. It is just absolutely crucial. It is the cornerstone of agriculture. I can just see they have incredible problems, these three problems. I can see it really is a crucial time for them.

Senator CONRAD. Well, once again, let me thank this panel. Your presentations have been exceptional. We appreciate your participation here today.

Next we will hear from Dr. John Ambrose, Department of Entomology of North Carolina State University, who will provide an academic's view of the honey program. Welcome. It is good to have you here, Dr. Ambrose. We appreciate your participation very much.

STATEMENT OF JOHN T. AMBROSE, PROFESSOR OF ENTOMOLOGY, NORTH CAROLINA STATE UNIVERSITY, RALEIGH, NC

Mr. **Ambrose**. Thank you, Senator, ladies and gentlemen.

INTRODUCTION

I would like to restrict my comments to pollination and the effects that changes in the industry might have on pollination in the next few years. To do that, I would like to just briefly summarize the importance of pollination, as it is today, and how that emphasis has been arrived at.

STUDIES PROVIDE THE IMPORTANCE OF BEES FOR POLLINATION

Just to give you a little bit of history, probably the first real emphasis on the importance of bees for pollination dates back to McGregor in 1976 when, in his USDA handbook, he made the famous statement that "perhaps one-third of our total diet is dependent directly or indirectly upon insect-pollinated plants."

Senator **Conrad**. One-third of our diet?

Mr. **Ambrose**. Yes, sir. That was insect pollinated plants, not just honeybees.

Senator **Conrad**. I do not think many people understand that.

Mr. **Ambrose**. In other words, in the daily basket of foodstuffs that the USDA considers, one-third of what you eat comes from plants or foods that were pollinated by bees or other insects, but mostly by bees.

Later Dr. Levin, who worked with the USDA, in 1984 tried to put a dollar estimate on that. He estimated a little over $19 billion in foodstuffs were pollinated by insects. Compare that to about $144 million in the value of honey and beeswax at that time.

The U.S. Government Accounting Office found fault with that study because he did not distinguish between bee pollinated and other insect pollinated plants, or actually the value that was added to those plants. So a study in 1987 by O'Grady, a graduate student from Vermont, put the value at excess of $4 billion.

VALUE ADDED TO THE PLANTS, NOT THE VALUE OF THE PLANTS

However, some better methodology since then, the study that has been referenced before from Cornell in 1989, set a fairly realistic value of over $9 billion on the value of plants produced by honeybee pollination.

I would like to emphasize, this is the value added to the plants, not the value of the plants.

Senator **Conrad**. That is the value added?

Mr. **Ambrose**. Yes, sir.

Senator **Conrad**. We should underline that.

Mr. **Ambrose**. We should underline it and capitalize it, yes, sir.

THE WAY THAT POLLINATION WORKS RIGHT NOW

The way that pollination works right now is there about 2 million rentals each year of beehives, which actually involves about 1 million hives, so obviously a lot of the hives are being rented twice, or some even three times. That involves about one-quarter of the hives in the United States, or about one-third of the reported hives. We have about 1 million hives that are not reported because of the way the USDA keeps statistics right now, and I would be glad to discuss that later.

Of that $9.3 billion, $3.2 billion actually comes from crops where a fee is paid for bee pollination. Almonds would be the best example there.

This trend to produce crops and consume crops that benefit from bee pollination, where bees were actually rented, has been increasing for the last two decades. In my report, there are some nice studies done by the people of Cornell showing how that trend has changed.

The income to beekeepers from this pollination service is between $40 million and $50 million a year, which is considerably less than half the income they receive from honey and wax, to put it in perspective. The average hive rental is between $20 and $25, which means the average income from pollination to a beekeeper, because he usually rents a hive twice, is between $40 and $50. The cost to maintain that hive and to transport it for pollination is probably $10 to $15 in excess of that amount.

POLLINATION IN ITSELF IS NOT A MONEYMAKING PROPOSITION FOR MOST BEEKEEPERS

So pollination in itself is not a moneymaking proposition for most beekeepers. We talked about subsidies. Pollination is subsidized by the sale of honey and beeswax, primarily through the sale of honey.

VALUE OF POLLINATION

The value of pollination is such that for every dollar that is spent on pollination services in this country, the return in value added to crops is between $60 and $70. So that is a 60 to 70-fold increase.

Senator **Conrad**. That is about the best deal I know of. That is the kind of investment I have been looking for, Dr. Ambrose.

SPILLOVER POLLINATION

Mr. **Ambrose**. What I would like to shift to, for just a minute, is to talk just about a term called spillover pollination. Spillover pollination is pollination that occurs, and I am talking about honeybees, where a fee is not paid for the service. Now I said there were over $9 billion in value added to crops. Only about $3 billion were on crops where bees were actually paid for. So there is something like $6 billion plus in the Cornell study alone where bees, because they were in the area, pollinated the crops. Bees have no choice in this matter. If the plants attract, they are going to visit it and they are going to pollinate it.

Particularly in the Eastern part of the country, as opposed to California where most of the bee rental pollination occurs, most of the pollination in the East is done on a nonpaid scale, where the beekeepers are out making honey and inadvertently pollinate something while they are there.

In addition, honeybees added in excess of $1 billion to home gardens last year, in value added to fruit trees and vegetables that benefit from bee pollination.

WILDLIFE IS HELPED BY POLLINATION

If we look at wildlife, which is something that is very difficult to put a value on, but I will just give you two quick examples. There was a study done in South Dakota on pheasants. Pheasant hunting is about a $20 million industry in that State. The ground cover that pheasants use, particularly for breeding purposes, is primarily from sweet clover. Sweetclover is highly dependent upon bees for pollination and regeneration.

In my own State of North Carolina, we normally think of bears and bees as being antagonists. However, 20 to 25 percent of the diet of bears comes from bee pollinated plants. Without the bees, food would be in short supply for bears. There would either be fewer bears, or they would move into more populated areas and start eating garbage.

A LOT OF THE POLLINATION THAT IS OCCURRING, IS OCCURRING BY THESE BEES THAT ARE NOT BEING COUNTED BY ANYBODY'S STATISTICS

If we combine the hobby hives in this country, which is about 1 million plus, with the feral colonies, that more than exceeds the number of colonies that are reported by the USDA, the 3 million colonies. That is the pollination cushion we have right now. A lot of the pollination that is occurring, is occurring by these bees that are not being counted by anybody's statistics.

LOSE BEES TO MITES AND AFRICANIZED BEES

These are also the bees that we are probably going to lose in the next few years. The witnesses have talked about mites and Africanized bees. Let me just address those two points very quickly.

The losses from tracheal mites this year are averaging about 30 percent in most of the country, 30 percent of the hives that we are keeping statistics on. It is estimated that we will probably lose about 1 million hives to varroa mites in the next 2 to 3 years. So we may lose anywhere from one-third to one-half of the hives we have.

That is in the hives we have numbers on. The loss in the feral colonies will be even more severe. There are two reasons for that. One is there is no way to control it. Our beekeepers are medicating their hives now for mites and they are still losing bees. The feral colonies will receive no such medication. There will be no way to stop the spread.

Once the feral colonies are lost, they will not be replaced. The reason they will not be replaced is the managed colonies will be weakened by diseases, by the mites, by pesticides. The swarms that normally populate the feral colonies will no longer be in existence.

Which means that when the Africanized bees finally do arrive, it complicates the matter even more. In spite of some of the studies that have come out, Africanized bees are not better pollinators than honeybees in the United States. I would like to emphasize that.

In the tropics, they are. In temperate climates, they are not. The report that was prepared by the USDA for the honey loan programs says that the bees in Mexico, the Africanized bees, were better pollinators. They are there, but they will not be here. There is good scientific testimony to that effect.

When the Africanized bees arrive, and they will, they will slow down the movement of bees, the migratory operations, which does most of the beekeeping pollination in the West part of the country. Now you will have a reduction in beekeepers, because some beekeepers will go out of business because of the public reaction to the bees. And you may have a situation where the Africanized bees populate the feral colonies or the hives of beekeepers that are no longer in existence.

CONCLUSION

The outcome is you have a severe reduction in the wild population of bees, and I am talking about honeybees, the hobby colonies which are the cushion that we have right now for pollination. So anything that happens to affect the livelihood of commercial beekeepers in the next few years will have a more than typical effect on pollination services because they will be the only pollinators that you will have, to a large extent.

Thank you, Mr. Chairman.

Senator CONRAD. You have provided fascinating and sobering testimony. What you are saying is that we could lose half of the domestic bee colonies in the next several years, due to the series of factors that you have described.

Mr. AMBROSE. Yes, sir. I think that is true.

Senator CONRAD. This is a $9 billion value added industry that is providing pollination services for about one-third of the food supply in this country. Losing half of our domestic bee colonies could threaten the entire food system in this country. Would you say that is an accurate assessment?

Mr. AMBROSE. Definitely so. If I could just add one comment, the value added number we keep talking about, that is the value that would decrease from the crops right now if bees were not available, if everything stayed as it was. I am not an economist, but several economists have actually criticized the Cornell study, saying that the actual loss would be much higher because of the shortage that would occur in food supplies. So the actual cost to the consumers could be a twofold or threefold increase over that.

Senator CONRAD. Dr. Ambrose, what percentage of the pollination that is occurring is as a result of the activity of wild bees? Do we have an estimate of that?

Mr. AMBROSE. I think if you combine the wild bees with the hobby bees, which no one really keeps numbers on, probably at least half the pollination is occurring there. As I said, a lot of the pollination, particularly here on the east coast, is nonpaid for pollination and a lot of it is done by wild bees.

Senator CONRAD. What will be the effect on wild bee pollination of these mites that are spreading so rapidly?

Mr. AMBROSE. It will be a more disastrous effect than it will be on the managed hives. It will be a delayed effect. It is going to hit our managed colonies and hit them now, in spite of the fact that there are people that are using the approved medications.

It will move into the feral colonies, and as a matter of fact we have data that we have collected in the past year showing that tracheal mites have moved into the feral colonies. So you will start seeing a loss there. It usually takes 3 years before you see a significant loss, which means it will be next year before you see it in the feral hives.

But because nobody is trying to treat for the mites, you would expect the losses to be even higher than they are in the managed hives.

Senator CONRAD. Let us bring this back to a public policy question if we could for a moment. From your testimony can we derive the conclusion that it is essential that we maintain a strong honey program?

Mr. AMBROSE. I definitely think so. As I said, the honey program, in effect, subsidizes the pollination program. In the next few years, those people who do commercial pollination will become even that much more important because the cushion is gone. So anything that affects their livelihood, affects the numbers of bees, affects the number of colonies, affects the bees available for pollination.

Senator CONRAD. All right. Senator Baucus.

Senator BAUCUS. I have no questions, but I will say that we have a good active honey producers program in our State. In fact, my family has a ranch in Montana and we have lots of hives ourselves. When you talk about some of the problems, particularly the mites and so forth, it gets my attention. We will see what we can do to help out. Thank you.

Senator CONRAD. Senator Daschle.

Senator DASCHLE. Mr. Chairman, I want to commend you for taking the time to listen to these very effective witnesses. The chairman's comment, I think, is appropriate and I should share it with everyone in the room, that he felt that this was one of the most effective and most meaningful hearings he has attended in a long period of time.

It is often overlooked, and I think mistakenly so. As a matter of public policy, it is my strongly held view that it would be a disaster for us to change the honey program as it exists in farm legislation today. We have a good thing going. We ought to keep it going. We ought to build upon what we have. The only way we can build upon what we have is to keep those tools which have proven themselves to be effective in place.

Next week we will be introducing the reauthorization of the honey program and I am very hopeful that we can get a broad based bipartisan group of supporters who understand, as certainly the chairman does, the value of this program and the need to continue it all the way through the 1990 farm bill.

I want to commend you, Mr. Chairman, and our witnesses, and the tenacity of some of the people. They are not large in number, as an industry. But as your comments and questions have pointed out, they provide a tremendous service to this country that is not well reported oftentimes, overlooked oftentimes, as a matter of public policy but clearly a service that will continue to be even in greater demand in the future.

My hat goes off to them, and I just hope that we have the good sense to maintain a policy that recognizes the value that they play in agriculture today.

Senator **Conrad**. Thank you, Senator Daschle.

Dr. Ambrose, I will say to you, you are a credit to your institution. I would like to have you at North Dakota State University. I will tell you, I just found your testimony outstanding. You know, quite often you get an academic's view and it is kind of ethereal and removed from the real world. Your testimony was right on point and extremely valuable. I want to thank you.

If you ever are thinking about, you know, maybe it is time to move, let us know. We would like to have you in North Dakota.

Mr. **Ambrose**. Thank you, Senator.

[The prepared statement and attachments of Mr. Ambrose follow:]

TESTIMONY OF

Dr. John T. Ambrose
Dept. of Entomology
N. C. State University
Raleigh, NC 27695-7626

On Behalf of
N. C. State University
and
AMERICAN BEEKEEPING FEDERATION, INC.
P. O. Box 1038
Jesup, GA 31545

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
SUBCOMMITTE ON AGRICULTURAL PRODUCTION
AND STABILIATION OF PRICES

HEARING ON THE 1990 FARM BILL
HONEY LOAN PRICE SUPPORT PROGRAM

March 2, 1990

No one can realistically argue against the premise that honey bee pollination is a significant factor in the U. S. agricultural economy. More than 2 million rentals of honey bee colonies occur each year (Robinson, et al, 1989). The only debatable points are the magnitude of the financial contribution made by those honey bees and whether the beekeeping industry will be able to provide such pollination services in the years to come. The first generally accepted appreciation of the importance of crop pollination by honey bees dates back to S. E. McGregor's 1976 handbook, "Insect Pollination of Cultivated Crop Plants" published by the U. S. Dept. of Agriculture. This publication was based on an exhaustive review of the available research literature, and McGregor made the following statement: ". . .it appears that perhaps one-third of our total diet is dependent directly or indirectly upon insect-pollinated plants". By 1984 Dr. Marshall Levin, also of the USDA, valued honey bee pollination activities to be 144 times greater than the industry's production of honey and beeswax ($18.9 billion versus $140 million). He placed a 1981 value of $18.9 billion on the fruits and nuts, seeds and fibers, commodities produced from seeds requiring pollination, and a portion of those commodities (such as the dairy industry) that are indirectly dependent on insect pollination.

The U. S. General Accounting Office has claimed that Dr. Levin's estimates are inflated. The criticism is valid in that he did not distinguish between honey bees and other insect pollinators nor did he deal only with the crop value that would be realized if no pollination occurred.

O'Grady (1987) considered those and other variables and estimated a considerably reduced value of honey bee pollination at $4.6 billion to U. S. agriculture. However, a more detailed study (Robinson et al,, 1989) realistically upgraded that value to $9.3 billion.

The 1989 report by Robinson et al is the basis for most of the current data included in this report. Unless otherwise indicated, the following statistics are based on the Robinson et al study. They have compiled data from beekeepers, researchers, and regulators across the U. S. to present the most reliable and up-to-date picture of honey bee pollination and its importance to the U. S. economy.

A brief summary of the study by Robinson et al includes the following highlights:

1. Annually there are about two million rentals of honey bee colonies for crop pollination in the U. S. (see Table 1).

2. About one million different colony of bees are involved in crop pollination with the typical colony being transported to two separate crops per season.

3. Approximately 1/4 of the reported 3.2 - 4.2 million beekeeper colonies in the U. S. are used for crop pollination.

4. About 70% of the pollination rentals occur in just one state, California, with at least 650,000 colonies being used annually to pollinate the almond crop.

5. Honey bee pollination benefits all U. S. agriculture by increasing the yield and quality of produce and added approximately $9.3 billion in 1985. This figure represents those crops that benefited from honey bee pollination whether or not a pollination fee was paid to the beekeepers (see Table 2).

6. The value added to crops when honey bees were actually rented for pollination was over $3 billion in 1985 (see Table 3).

   a. The total of all pollination fees paid by growers is estimated at $40-$50 million per year.

   b. On an average the benefit for each $1 spent in pollination fees by the grower results in a return or benefit of $60-$70.

7. The production and consumption of many crops that are benefited by honey bee production have been increasing over the last 10 to 20 years and that trend is expected to continue.

8. Honey bee pollination is an important but unpaid for element in providing food and habitat for wildlife and in increasing yields of home gardens and orchards.

9. For most beekeepers involved in commercial pollination, the costs of maintaining populous colonies of honey bees are greater than the income generated by pollination fees paid by the growers. The difference and the necessary profit is accrued through honey production and sales. The loss of honey sales would eliminate profitability under the present system.

The only criticism that has been levelled against the study by Robinson et al to date is that it may actually understate the value of honey bee pollination. Southwick and Southwick (1989) state that the subject study actually addresses the amount that crop values would be reduced without honey bees. They estimate that the actual cost to consumers as farmers compensate for those losses would be significantly greater due in part to the addition of other production costs and a resulting scarcity of some crops. For our purposes the loss in value of crops due to a lack of pollination is a reasonable approach.

Before discussing the importance of pollination to specific crops, it would probably be beneficial to describe the actual process of pollination and why honey bees are so important. Pollination is basically the transfer of pollen from the anthers (male portion) to the stigmas (female portion) of the flowers or blossoms. A distinction is sometimes made between plants which are self-pollinated and those plants which require cross-pollination. Cross-pollinated plants require a vector such as an insect or the wind to transfer pollen from blossom to blossom, but even self-pollinating plants can sometimes benefit from an outside vector which transfers or moves pollen within the blossom. Pollination in this report will include any transfer of pollen either between or within blossoms.

A number of vectors can affect pollen transfer including wind, rain, birds, and insects. Many insects are valuable pollinators but the most important group from a commercial crop standpoint are the bees. There are over 5,000 species of bees in North America and all are attracted to blossoms for nectar and pollen and are usually good pollinators. Other than the honey bees, several "wild" bees are particularly good pollinators and have uses in commercial crop pollination. These include bumble bees (Bombus spp.), orchard bees (Osmia spp.), leafcutter bees (Megachile pacifica), and alkali bees (Nomia melanderi).

Bumble bees are excellent pollinators and on an individual basis one bumble bee is usually a better pollinator than one honey bee. However, bumble bees are not commercially managed on any real scale and the wild populations may vary from year to year based on weather conditions, pesticide usages, and the destruction of ground nesting sites. Recently there has been some interest in using orchard bees for pollination purposes but

but the work is primarily limited to some orchard uses (Kuhn and Ambrose, 1984).

Two species of wild bees are routinely managed for commercial pollination of legume crops, especially alfalfa. These leafcutter and alkali bees are used for large scale pollination of alfalfa seed production, but such usage is limited to the Pacific Northwest. Neither bee seems to have much potential outside of the Pacific Northwest or on crops other than alfalfa.

The honey bee is the insect of choice for most of the commercial crop pollination in the U. S. The bees can be managed which includes maintaining large numbers of bees (pollinators) in each hive, and the hives may be moved small to large distances on short notice. In addition, the ability of the honey bee to work many different types of flowers as well as demonstrating flower fidelity makes that insect a very efficient pollinator. Perhaps most importantly, the bees' production of honey and beeswax insures that they will be available in large numbers and such bees are available for pollination. Work in the development of alternative (non-honey bee) pollinators is progressing, but it is unlikely that such pollinators will find widespread usage in the near future.

Each year approximately 1 million of the 3.2-4.2[1] million bee colonies in the U. S. are used for crop pollination. This includes 25-30% of the total bee colonies in the U. S. or about 50% of the commercial colonies (Hoff, 1988). Most of the colonies are used to pollinate at least two different crops and some are used for up to three crops. This averages out to slightly over 2 million colony rentals per year.

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[1] Actual numbers of bee colonies in the U. S. are difficult to determine because the USDA maintains statistics only on beekeepers with 5 or more colonies of bees.

Approximately two-thirds of the total colony rentals for pollination occurs in California and one-third of the national total is for one crop, almonds. If the Pacific Northwest states are combined with California, then these states account for more than three-fourths of all the pollination rentals in the U. S. The importance of bee pollination in the west coast states is obvious, but the trend also exists for increasing pollination rentals in other states, particularly on crops such as apples, blueberries, and cucumbers.

SPECIFIC POLLINATION CASES

Almonds are probably the best example of a crop grown in the U. S. that is almost totally dependent on honey bees for pollination. All of the major almond cultivars are self-unfruitful meaning that cross-pollination or pollen transfer from one cultivar to another is essential (Griggs & Iwekiri, 1964). The acreage devoted to almond production jumped from 100,000 acres in 1970 to over 400,000 acres in 1985. The value of the 1986 California almond crop was $482 million (U. S. Dept. of Agriculture, 1988), and that represents over one-half of the world production.

Recommendations for the number of bee colonies for almond pollination vary from 2-5 colonies per acre with the actual use ranging from 1.5-5 colonies. The Extension Apiculturist in California is quoted as saying that "the almond acreage has surpassed our ability to supply enough bees (Robinson et al, 1989). California has approximately 420,000 bee colonies in the hands of commercial beekeepers, but 650,000 colonies were used in almond pollination. The additional 190,000 colonies were supplied by migratory beekeepers from Oregon, Washington, Idaho, North and South

Dakota, and even Minnesota.

California is an example of a state that does not have enough honey bees to meet all of its crop pollination needs (see Table 1). The State Extension Apiculturist indicates that almost all of the state's 420,000 colonies are contracted for pollination and that over 300,000 of those colonies are used to pollinate two or more separate crops (Robinson et al, 1989).

The average rental for a bee colony in California is about $20 per colony which works out to $40-$45 in income from two annual pollination fees. The actual cost to the California beekeeper for maintaining and transporting each colony is $55-$60. The difference in expenses and any operating profit must be earned through the sale of honey and beeswax. Crop pollination in California is not a profit making operation it itself, and this is compounded by the fact that up to 80,000 colonies must be moved from some agricultural areas to avoid exposure to pesticides at certain periods of the growing season.

Even though a smaller number of bee colonies are used for apple pollination than are used for almond pollination, apples are probably the best example of a crop which is grown throughout much of the U. S. and requires extensive pollination. Apples are grown commercially in at least 35 states and at least 250,000 colonies of bees were rented for apple pollination. Because of the widespread cultivation of this crop and its heavy reliance on honey bes for adequate pollination, this may be the most important U. S. crop requiring honey bee pollination. In 1985, honey bee pollination contributed $824 million in value to this crop through pollination.

Apple production in the U. S. has increased in recent years and exceeded $1 billion in 1986. Even though there has been some decrease in acreage planted to apples this has been more than compensated by the switch to dwarf trees. The dwarf trees occupy less space than the older style trees and increase the apple production per unit area. Washington is the largest producer of apples followed by the states of New York and Michigan with significant acreages grown in such states as California, Virginia, Pennsylvania and North Carolina.

For all practical purposes, all of the important commercial apple cultivars in production are considered to be self-unfruitful and benefit from pollination. The recommendations for the number of bee colonies per acre varies from area to area but one colony per acre is a standard recommendation. One recent problem with apple pollination has been the decrease in the available wild bees due to pesticides usage and destruction of nesting sites. This has placed more emphasis on the importance of honey bees for such pollination purposes.

The third and last major crop to be considered in this report is cucumbers. Like apples, this is a widespread crop and honey bee pollination is essential for commercial production. In 1985 over 160,000 acreas were planted and at least 40,000 colonies of bees were rented to pollinate that acreage. The value added to the crop by honey bee pollination is estimated at $167 million.

Cucumbers are grown throughout the country with two major distinctions made in the crop. A significant acreage is devoted to processed or pickling cucumbers with North Carolina, Michigan and South Carolina being the leading producers. The states of Florida, California and Texas produce the bulk of the cucumbers used for the fresh market. Whether the cucumbers are grown for processing or the fresh market, they do require insect pollination to insure adequate quantity and quality, and the honey bee is the only reliable pollinator for that purpose.

Cucumber pollination can be difficult because of the pesticude usage and the fact that the cucumbers produce very little nectar for the bees. Cucumbers grown in the Spring or early Summer usually do not have heavy insect pest pressure but the later crops do have such pressure. The threat of heavy insect pest damage on those later crops often results in heavy pesticide usage and the threat of bee kill. Another complication is that cucumber blossoms, unlike apple blossoms, do not produce large amounts of nectar for the bees. Honey bees used in cucumber pollination will generally deplete some of their stored honey during the pollination period which is an added expense for the beekeeper.

The impact on commercial crop pollination through the rental of honey bees for that purpose is obviously a vital consideration in any program dealing with honey bees and beekeeping in the U. S., but it is not the only consideration. At least two other factors should be taken into consideration. One is "spillover" pollination and the other is the effect of honey bees on the maintenance and development of natural ecosystems and the resident plants and animals.

Robinson et al (1989) refer to "spillover" pollination as pollination for which no fees are collected. Based on the data supplied by Robinson et al, the value of spillover pollination far exceeds the value added to commercial crop pollination by rented bee colonies ($9.3 billion less $3-$6.3 billion as a minimum figure). Almost all of the nations beekeepers provide some spillover pollination just by the very act of having their bees within flying range of plants that can benefit from bee pollination.

One of the simplist examples of spillover pollination is the apple grower or cucumber grower who does not rent bees for pollination because he knows that either his neighbor will rent bees for a similar crop or who knows that there is a beekeeper nearby with several colonies of bees. The spillover affect on commercial crops is probably mroe of a factor in areas mercial crop pollination by rented bee colonies ($9.3 billion less $3 = $6.3 billion as a minimum figure). Almost all of the nation's beekeepers provide some spillover pollination just by the very act of having their bees within flying range of plants that can benefit from bee pollination.

One of the simplest examples of spillover pollination is the apple grower or cucumber grower who does not rent bees for pollination because he knows that either his neighbor will rent bees for a similar crop or who knows that there is a beekeeper nearby with several colonies of bees. The spillover affect on commercial crops is probably more of a factor in areas outside of California and the Pacific Northwest where three-fourths of the bee rentals occur each year. Crops are being grown in other states and bees are pollinating many of those crops whether or not the service is a paid service.

A second and often overlooked example of spillover pollination occurs in home gardens and orchards. Many beekeepers, particularly hobby beekeepers with 1 to 20 hives have their bees located in urban and suburban environments. These bees provide free (unpaid) pollination service to the nearby gardens. A 1983 survey indicated that homeowners produced vegetables valued at over $14 billion. Robinson et al (1989) state that a conservative one-tenth or $1.4 billion of that produce value was attributable to honey bee pollination. One of the most common complaints of home gardeners is that their vine crops produced flowers but no fruit, and the answer is a shortage of pollinating insects (honey bees).

One of the most promising areas of research is the impact that honey bees have on wildlife from the standpoint of maintaining and developing natural habitats or ecosystems. Data in this area is still sparse but some generalizations are reasonable: a reduction in honey bees would result in a reduction of seeds and fruits in forest ecosystems. Barclay and Moffett (1984) estimated that 65% of the plants that are important as wildlife food sources are also visited by honey bees for pollen and nectar which may aid in setting fruit and nuts for the wildlife.

Another example of the importance of bees on maintaining wildlife is given by Barclay and Moffett (1984) and concerns cover for pheasants. In South Dakota, the 1980 value of the pheasant hunting industry was $20 million, and the sweetclovers are widely used by the birds for cover and as breeding sites. Sweetclover is pollinated by honey bees and the honey bees make a substantial contribution to the maintenance of the plant through their pollination activities. The loss of bees would reduce the stands of sweetclover which would reduce cover and breeding sites for the pheasants.

A final example on the importance of honey bees to wildlife concerns the bear population in North Carolina, but the example could apply anywhere. Usually people think of bears and bees as being enemies in that bears will destroy bee colonies to eat the bees and their stored honey. However, diet studies on bears show that a sizable portion of the bear's diet (other than bees and honey) comes from plants which are bee pollinated). Without bees, many of the berries, nuts and related foods would be in short supply for the bears.

PROBLEMS CONFRONTING THE BEEKEEPING INDUSTRY AND AFFECTING POLLINATION SERVICES

A whole host of problems affect and will soon affect the nation's beekeeping industry. Any problem which has a negative impact on the beekeeping industry will probably affect pollination services in that a strong beekeeping industry is essential for providing pollination services.

Very few beekeepers make a profit on their enterprise simply from renting bee colonies for crop pollination. In California the average beekeeper spent $55-$60 in maintenance and transportation expenses on the bee colony that earned $40-$45 from pollinating two crops per year. The sample beekeeper made up the difference in expenses and earned a profit by producing and selling honey and beeswax. It could be argued that the pollination fees should be adjusted upwards to cover all of the maintenance and operating expenses, but this report deals with the current situation.

Because the beekeeper must earn a sizeable portion of his income from honey and beeswax sales in addition to pollination fees, then the beekeeper is dependent upon a market for his honey crop. In past years before the advent of the current honey price support program, the typical American commercial beekeeper was hard put to compete in the marketplace against foreign honey shipped into the U. S. market. That situation was part of the justification for the subject program. The need for the beekeeper to sell his honey crop in addition to pollination fees is still a serious consideration in any changes to the program.

Other factors which negatively impact on the nation's beekeepers are pests of bees, and of course, the expected arrival of the "Africanized honey bees". Pesticides have been and continue to be a major problem facing beekeepers. The education of growers and the public as to the hazard of such pesticides and some changes by the EPA have resulted in a reduction in problems in some areas but the danger is still very real. At the present time, a beekeeper who loses his bees to pesticides has very little recourse to compensation since the cancallation of the U. S. Beekeeper Indemnity Program.

A problem of obvious concern to beekeepers at the present time is the introduction of two mites which are parasites of honey bees. The mite which has received the most attention is the Varroa mite (Varroa jacobsoni). This mite was first discovered in the U. S. in 1987 and based on its record in other countries, it will probably have a major impact on beekeeping in the U. S. The mite is currently found in at least one-third of the states and is constantly spreading to uninfested states. Robinson et al (1989) predicted that the U. S. may lose as many as 1,000,000 bee colonies to this mite and that estimate does seem to be reasonable.

The second mite is the tracheal mite (Acarapis woodi). This mite was first detected in the U. S. in 1984 and since then it has spread throughout the contiguous states of the U. S. At first this mite was not viewed as a serious threat to U. S. beekeeping based on its record in other countries, but that view is rapidly changing. In the past year, the loss of bee colonies to tracheal mite infestations has become a serious problem. This author estimates that 20 to 25% of the bee colonies in North Carolina have died this winter and one-half of that loss (20,000 colonies) may be due to tracheal mites.

The arrival of the two mite pests in the U. S. has resulted in the imposition of various quarantines on bee movements by some states to prevent the introduction of the pests into the subject states. The impact of such a collection of state quarantines is to reduce the movement of honey bees, particularly migratory bees used in crop pollination. As cited in the almond pollination example in California, 190,000 colonies of bees were moved into California from other states for pollination. The situation is not unique to California. Migratory beekeepers also move from Florida to Maine, from Texas to the Dakotas, etc. Quarantines may reduce the arrival of bee pests in selected states but they have impact on the available bees for pollination.

The arrival of the Africanized honey bee in the U. S. is just a matter of time and it will compound many of the problems already mentioned. Quarantines will be established by both the federal and state governments to control the movement of this bee and will affect the movement of bees for pollination. The Africanized bees are efficient pollinators from an individual standpoint, but it is very difficult to move colonies of Africanized bees for any purpose. Africanized bees often respond to being moved by abandoning the hive and flying away. In addition, the "reputation" of the bee may inhibit their use by growers for pollination purposes.

The last point I would like to discuss is the impact of the bee mites on feral (wild) colonies of bees and the subsequent affect on "spillover" pollination. As the tracheal mites and the Varroa mites spread throughout the managed bee colonies of the U. S., they will also enter the feral colonies of honey bees. The feral colonies are those colonies of honey bees that live in trees, the sides of houses, and other unmanaged locations. Beekeepers will not medicate these bees against the affects of the mites and some authorities are predicting that all of the feral colonies may succumb to the mite parasites. The consequence of this action would be that the feral colonies would no longer be available for spillover pollination. The affects on cultivated crops and wildlife (habitat loss) could be monumental.

Many factors affect the ability of beekeepers and the honey bees to provide pollination services and I hope that this report has shown the complexity of the situation and how one change can affect the entire beekeeping industry.

Table 1. Estimates of total numbers of honey bee colonies rented annually in California and the entire U.S. for pollination.

Crop	Major Producing States	Annual Colony Rentals		Number of colonies per acre	
		California	Total U.S.	Recommended	Actual
almond	CA	650,000	650,000	2-5	1.5-5
apple	WA, NY, MI, CA, PA	30,000	250,000	1-2	0.25-2
melon	CA, TX, FLA	200,000	250,000	1-2	1-2
alfalfa seed	CA, ID, WA, OR, NV	200,000	220,000	1-10	3-10
plum/prune	CA, OR, MI, WA, ID	125,000	145,000	1	1-2
avocado	CA	100,000	100,000	2-3	1-2
blueberry	MI, ME, NJ, NC, GA	0	75,000	0.5-10	1-3
cherry	WA, MI, OR, CA	10,000	70,000	1-2	0.33-2
vegetable seeds[a]	CA, OR, WA, others	35,000[b]	50,000	variable	1-10[c]
pear	CA, WA, OR	12,000	50,000	1-2	1[d]
cucumber	NC, MI, SC, FL, TX	5,000	40,000	1-3	0.1-3
sunflower[e]	CA, TX, MN	15,000	40,000	0.5-1	0.67-1
cranberry	MA, WI, NJ, OR, WA	0	30,000	1	1-1.5
kiwifruit	CA	15,000	15,000	3-5	1-5
others[f]	throughout U.S.	35,000[b]	50,000	variable	variable
TOTALS		1,432,000	2,035,000		

From Robinson et al 1989

Table 1 footnotes

a. Includes seeds for cole crops, cucurbits, celery, carrot, radish, and onion.

b. California totals for these crops estimated as 70% of U.S. totals, the trend shown for other crops.

c. 1-2 colonies per acre for most vegetable seeds; up to 10 colonies per acre for onion seed.

d. Except in central California, where few, if any, colonies are rented for the pear crop because it consists almost exclusively of the cultivar 'Bartlett', which generally sets seedless fruit under warm climatic conditions.

e. For production of hybrid seeds.

f. Includes squashes, pumpkin, brambleberries (blackberries, boysenberries, loganberries, and raspberries), strawberry, peach, nectarine, macadamia nut, holly, buckwheat, rapeseed, some citrus, some soybean varieties, and seeds for forage legumes other than alfalfa.

From Robinson et al 1989

Table 2. Annual value attributable to honey bee pollination of major U.S. crops designated by McGregor (1976) as dependent upon or benefited by bee pollination. The value attributable to honey bees was calculated by multiplying the total annual value (V) by an estimate of the crop's dependence on insect pollination (D) and an estimate of the proportion (P) of effective insect pollinators that are honey bees.

Crop	V=Annual value[a] ($ millions)	D=Dependence on insect pollination	P=Proportion of pollinators that are honey bees[b]	V x D x P = Annual value attributable to honey bees ($ millions)	References[c]
Fruits and nuts					
almond	360.6	1.0	1.0	360.6	McGregor 1976
apple	915.6	1.0	0.9	824.0	Free 1964, Robinson & Fell 1981
apricot	28.1	0.7	0.8	15.7	Jorgensen & Drage 1953 Langridge & Goodman1981
avocado	176.4	1.0	0.9	158.8	Peterson 1955
blueberry	104.6[d]	1.0	0.9	94.1	Marucci 1966
brambleberry[e]	51.8[f]	0.8	0.9	37.3	Shanks 1969 McGregor 1976

From Robinson et al 1989

Crop	V=Annual value[a] ($ millions)	D=Dependence on insect pollination	P=Proportion of pollinators that are honey bees[b]	V x D x P = Annual value attributable to honey bees ($ millions)	References[c]
cherry					
sweet	101.0	0.9	0.9	81.8	Hootman 1933
tart	62.9	0.9	0.9	50.9	Hootman 1933
citrus					
grapefruit	308.5	0.8[g]	0.9	222.1	Burger 1985
lemon	168.1	0.2	1.0	33.6	Moffett & Rodney 1975 Moffett & Rodney 1971
lime	19.9	0.3[g]	0.9	5.4	McGregor 1976
orange	1459.3	0.3[g]	0.9	394.0	McGregor 1976
tangelo	34.4	0.4	0.9	12.4	Moffett & Rodney 1973
tangerine	49.4	0.5[g]	0.9	22.2	Moffett & Rodney 1979
temple	26.2	0.3	0.9	7.1	McGregor 1976
cranberry	189.9	1.0	0.9	170.9	Marucci 1967
grape	959.1	0.1	0.1	9.6	McGregor 1976
kiwifruit	16.7[h]	0.9	0.9	13.5	Clinch 1984, Lawrence & Cobey 1985
macadamia	30.5	0.9	0.9	24.7	Urata et al. 1954
nectarine	68.7	0.6	0.8	33.0	McGregor 1976
olive	53.6	0.1	0.1	0.5	Griggs et al. 1975
peach	307.4	0.6	0.8	147.6	McGregor 1976

From Robinson et al 1989

Crop	V=Annual value[a] ($ millions)	D=Dependence on insect pollination	P=Proportion of pollinators that are honey bees[b]	V x D x P = Annual value attributable to honey bees ($ millions)	References[c]
pear	201.0	0.7[i]	0.9	126.6	McGregor 1976
plum/prune	192.4	0.7	0.9	121.2	Thorp 1981
strawberry	450.8	0.4	0.8	144.3	Thompson & Liu 1972 Connor & Martin 1973
Vegetables and Melons					
asparagus	163.7[j]	1.0	0.9	147.3	Eckert 1956
broccoli	239.3	1.0	0.9	215.4	Nieuwhof 1969 McGregor 1976
carrot	206.4	1.0	0.9	185.8	Hawthorn et al. 1960
cauliflower	169.1	1.0	0.9	152.2	Nieuwhof 1969 McGregor 1976
celery	189.5	1.0	0.8	151.6	McGregor 1976

From Robinson et al 1989

Crop	V=Annual value[a] ($ millions)	D=Dependence on insect pollination	P=Proportion of pollinators that are honey bees[b]	V x D x P = Annual value attributable to honey bees ($ millions)	References[c]
cucumbers					
fresh	82.6[k]	0.9	0.9	66.9	Alex 1957a Kauffeld et al. 1975
processing	123.6	0.9	0.9	100.1	Alex 1957a Kauffeld et al. 1975
muskmelon					
cantaloupe	164.4[l]	0.8	0.9	118.4	McGregor & Todd 1952 Chandler & Cocke 1981
honeydew	58.1	0.8	0.9	41.8	McGregor & Todd 1952 Chandler & Cocke 1981
onion	347.2	1.0	0.9	312.5	Jones & Emsweller 1933
pumpkin	60.2[m]	0.9	0.9	48.8	McGregor 1976
squash	192.4[n]	0.9	0.9	155.8	McGregor 1976
vegetable seed	48.9[o]	1.0	0.9	44.0	McGregor 1976
watermelon	149.8[k]	0.7	0.9	94.4	Brewer 1974

From Robinson et al 1989

Crop	V=Annual value[a] ($ millions)	D=Dependence on insect pollination	P=Proportion of pollinators that are honey bees[b]	V x D x P = Annual value attributable to honey bees ($ millions)	References[c]
Field Crops					
alfalfa					
seed	114.8[k]	1.0	0.6[p]	68.9	Vansell & Todd 1946
hay	4719.0[q]	1.0	0.6[p]	2831.4	Vansell & Todd 1946
cotton					
lint	3645.4	0.2	0.8	583.3	McGregor et al. 1955
seed	348.3	0.2	0.8	55.7	McGregor et al. 1955
legume seed	27.3[r]	1.0	0.9	24.6	McGregor 1976
peanut	1003.4	0.1	0.2	20.1	Girardeau & Leuck 1967 Hammons et al. 1963
rapeseed	1.8[s]	1.0	0.9	1.6	McGregor 1976
soybean	10571.3	0.1	0.5	528.6	Erickson et al. 1978 Erickson 1984
sugarbeet	761.2	0.1	0.2	15.2	Mikitenko 1959 McGregor 1976
sunflower	251.5	1.0[t]	0.9	226.4	Miller 1988
TOTALS	29,976.1			9,302.7	

From Robinson et al 1989

Table 2 footnotes

a. Value for 1985 (from USDA 1987), except as otherwise noted.

b. The value for P was assumed to be 0.8 (see text) unless reliable evidence indicated otherwise; for crops to which honey bee colonies are routinely supplied in large numbers, either for pollination or for honey production, we used a value for P of 0.9 to reflect the greater honey bee density.

c. Sources for estimates of D and P.

d. From Eck (1988).

e. Includes blackberries, boysenberries, loganberries, and raspberries.

f. Value of 1985 production from the three leading producing states only: Oregon ($30.1 million; based on Burgett 1988, excluding the value of cranberries from the "berries" total listed), California ($11.8 million; California Agricultural Statistics 1987), and Washington ($9.9 million; Mayer 1988).

g. There is large variation among cultivars for most citrus fruits. Many important cultivars are seedless, requiring no pollination.

h. 1985 value, from USDA (1986a).

i. Derived by excluding half of California production (California accounts for 0.4 of the national total) due to parthenocarpic production of the cultivar 'Bartlett' in the San Joaquin Valley, and subtracting 0.1 to represent other cultivar variation.

From Robinson et al 1989

j. Value of 1985 production of the four largest producing states only: California, Michigan, New Jersey, Washington (USDA 1986b); value calculated from average 1985 price received (USDA 1988c).

k. 1980 value--the most recent available data (USDA 1987).

l. Estimated from California value (California Agricultural Statistics Service 1987), assuming that 80% of national production is from California.

m. Estimated from figures on California production (valued at $7.9 million for 1986, produced on 3,415 acres; Hoff 1989), extrapolated to U.S. (about 26,000 acres; Hoff 1989)

n. Estimated from figures on Florida production (valued at $40.0 million for 1985; Hoff 1989), extrapolated to U.S. based on 1982 acreages (Florida, 10,600 acres; U.S., 51,000 acres; Hoff 1989).

o. Includes three states only: Oregon (seeds of carrot, onion, cole crops, and radish were valued at $12.0 million in 1985; Burgett 1988), California ($30.3 million for seeds of 14 vegetables in 1986; Hoff 1989), and Washington ($6.6 million in 1986; Mayer 1988). Figures for other states not obtainable.

p. Derived by excluding 40% of the national total to represent seed production in the Pacific Northwest, where bees other than honey bees are used almost exclusively; honey bees account for virtually all the pollination in California (50% of the national total) and in other states (10% of the national total).

From Robinson et al 1989

q. Alfalfa hay production is 57% of total hay production, which was valued at $9,437 million in 1985 (USDA 1987): $9437 million x 0.57 = $4719 million.

r. Includes three states only: 1985 Oregon crops (red clover seed $7.6 million; crimson clover seed, $2.3 million; white clover seed, $1.3 million; hairy vetch seed $0.5 million; Burgett 1988), 1985 Washington crops (red clover seed, $1.3 million; Mayer 1988), and 1986 California crops ($14.3 million for seed other than vegetable seeds; Hoff 1989). Figures for other states not obtainable.

s. Washington total only (Mayer 1988).

t. Virtually the entire sunflower crop is grown from hybrid seed, production of which is entirely dependent on insect pollination.

From Robinson et al 1989

Table 3. Annual value attributable to honey bees of U.S. crops for which pollination fees are paid to beekeepers. Figures from Tables 1 and 2 unless otherwise noted.

Crop	Annual U.S. Colony Rentals	Annual Crop Value Attributable to Honey Bees ($ millions)
almond	650,000	360.6
apple	250,000	824.0
melons	250,000	254.6
alfalfa seed	220,000	68.9
plum/prune	145,000	121.2
avocado	100,000	158.8
blueberry	75,000	94.1
cherries	70,000	132.7
vegetable seeds	50,000	44.0
pear	50,000	126.6
cucumbers	40,000	167.0
sunflower (hybrid seed)	40,000	6.1[a]
cranberry	30,000	170.9
kiwifruit	15,000	13.5
others[b]	50,000	
brambleberries		37.3
legume seeds		24.6
macadamia		24.7
nectarine		33.0
peach		147.6
pumpkin		48.8
rapeseed		1.6
squash		155.8
strawberry		144.3
TOTALS:	2,035,000	3,160.7

From Robinson et al 1989

Table 3 footnotes:

a. Estimate of 1988 value, which was much less than 1985 value. Calculated from information from Carl Smith, National Sunflower Association, and Bruce Hoveland, Interstate Seed: growers plant 5 pounds of seed per acre; in 1988 about 2 million acres were planted; therefore, about 10 million pounds of hybrid seed were used; 1988 exports of hybrid sunflower seed for planting were about 1 million metric tons = 2.2 million pounds; total: 12.2 million pounds; growers of planting seed were paid $0.50/pound for clean seed.

b. Crop value not included for the following crops, for which relatively small numbers of colonies are rented: holly, buckwheat, some citrus fruits, some soybean varieties.

From Robinson et al 1989

Senator **Conrad**. Next we will hear from our final panel, the wool producers. Pierce Miller, the legislative director of the American Sheep Industry Association and a Texas wool producer; Wally Caine, an Indiana wool producer of the Indiana Sheep Breeders Association; Rozita Jake, a Navajo Nation wool producer, the Navajo Wool Marketing Industry, Navajo Nation in New Mexico; Ralph Mayer, a Texas mohair producer, the Texas Sheep and Goat Raisers' Association; and Bob Gilbert, of the Montana Wool Growers Association.

Welcome all of you.

Senator **Daschle**. Mr. Chairman, could I just say one brief thing? Of all the recommendations made by the administration, their recommendation to abolish the Wool Act and start a target price system is probably the most reprehensible and inexcusable of any of those that they have presented.

I just hope that our committee can see through all that. We will also be introducing the Wool Act [1] on Monday and both the chairman, as well as the senior Senator from Montana, are prime cosponsors of this legislation.

Its purpose is very simple, to recognize something that we all ought to recognize, and that is the tremendous value the Wool Act has played at almost no cost to the Federal taxpayer for the entire perpetuity of the Wool Act as it has existed. We have a good thing going and the Wool Act ought to continue.

We have about 10 cosponsors at this point and the numbers keep growing, so I am really pleased with that, and I appreciate your willingness to listen to these witnesses again today.

Senator **Conrad**. If you heard the administration's testimony, you would have understood them to say that their proposal would have the following effects: it would reduce the income to farmers; it would reduce the supply of wool; it would reduce wool quality; and it would increase price to consumers.

Now I told them in baseball you have three strikes before you are out. I do not know how the administration can seriously entertain the proposals they advocate. But that was their testimony and it will be interesting to see if their position can be sustained.

Senator **Baucus**. Mr. Chairman, before we begin, I would like to note one of the panelists, Bob Gilbert from the Montana Wool Growers Association. Bob is probably one of the most effective advocates in the State of Montana of any group. He is a terrific person in representing wool growers in our State. He is tenacious and effective.

We are honored to have him here.

Mr. **Gilbert**. Thank you, Senator.

Senator **Conrad**. I want to welcome this panel. We will proceed as before. If you can summarize your statement, the full statement will be made part of the record. We will go through the panel and then have some time for questions.

Mr. Miller.

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[1] S. 2334, to extend the price support programs for wool and mohair, introduced and referred to the Senate Committee on Agriculture, Nutrition, and Forestry, on March 5, 1990. Some provisions included in S. 2830.

STATEMENT OF PIERCE MILLER, CHAIRMAN, LEGISLATIVE ACTION COUNCIL, AMERICAN SHEEP INDUSTRY ASSOCIATION, SAN ANGELO, TX

Mr. MILLER. Thank you, Mr. Chairman, members of the subcommittee. I appreciate your introductory remarks and I appreciate the opportunity to appear before you today to present the views of the American Sheep Industry on the wool and mohair provisions of the 1990 farm bill.

INTRODUCTION

My name is Pierce Miller. I am a fourth generation sheep and angora goat rancher from San Angelo, Texas, and serve as the chairman of the Legislative Action Council for the American Sheep Industry Association.

The American Sheep Industry Association, ASI, is a federation of State member associations representing over 125,000 sheep and Angora goat producers in this country. The ASI was created in 1989 through the merger of the National Wool Growers Association and the American Sheep Producers Council. The history of these predecessor organizations go back over 120 years and represent the oldest livestock commodity group in the United States.

I ASK FOR YOUR SUPPORT FOR A STRAIGHT EXTENSION OF THE NATIONAL WOOL ACT OF 1954 AS A PART OF THE 1990 FARM BILL

On behalf of the American sheep and Angora goat industry I ask for your support for a straight extension of the National Wool Act of 1954 as a part of the 1990 farm bill. The law, in its present form, has achieved its purpose of maintaining a viable domestic sheep and Angora goat industry. It has done this by providing market sensitive income stability to farm and ranch families; by providing incentives for quality improvements which has increased our competitiveness both in the domestic and in the international markets; and by stimulating demand for wool, mohair and lamb through the promotion and market development programs authorized under the act. The Wool Act has also provided much needed economic support to rural towns and communities, including the Indian nations, and ensures a domestic source of wool for military use. The Wool Act does all of this without being a burden to the American taxpayer. Renewing the Wool Act will ensure the financial stability the industry needs at this time to continue expansion and to continue to provide rural economic support.

THE WOOL ACT WAS DESIGNED TO PROVIDE STABILITY TO PRODUCER INCOMES BY BEING MARKET SENSITIVE

The Wool Act was designed to provide stability to producer incomes by being market sensitive. When wool prices are low, program payments provide income stability, and when wool prices strengthen, program payments go down. Over the history of the program, payments have gone down from 1 year to the next 17 times and have gone up 16 times. The program has worked to take the shock waves out of an erratic market and provide stability to farm and ranch family incomes. This income stability is equally significant to all sizes of operations.

NOT A BURDEN TO THE TAXPAYER

The Wool Act has achieved its objective without being a burden on the taxpayer. The incentive payments depend on the tariffs collected on raw wool and certain wool products. Since its beginning, the Wool Act has used only $2.05 billion of the $4.68 billion, or 44 percent, of the wool tariff collections made available for payments under the act. The rest of the funds have remained in the Treasury supplementing other taxpayer funded programs.

THE WOOL ACT HAS ALSO ALLOWED FOR THE SHEEP AND ANGORA GOAT INDUSTRY TO CONDUCT PROMOTION AND MARKET DEVELOPMENT PROGRAMS

The Wool Act has also allowed for the sheep and Angora goat industry to conduct promotion and market development programs. This law provided the way for the industry to start one of the first producer funded self-help programs in American agriculture. Consumer demand for wool, mohair and lamb have increased as a result of the promotion programs. The ability to conduct these self-help programs is an essential part of the wool and mohair program design.

THE IMPORTANCE OF WOOL TO THE MILITARY IS STILL SIGNIFICANT

Even though wool was removed by the military from the List of Strategic Materials in 1960, the importance of wool to the military is still significant. The military, through the Defense Personnel Support Center (DPSC), continues to purchase and stockpile wool and wool/blend items equal to 11 percent of the domestic wool production. THe DPSC also estimates that if mobilization were ever required, the military would have immediate needs for over 80 percent of the domestic production of textile quality wool.

THE WOOL ACT HAS BEEN SUCCESSFUL IN REVERSING A DOWNWARD TREND IN SHEEP PRODUCTION

The Wool Act has been successful in reversing a downward trend in sheep production. For 18 of the first 22 years of the program, the support level was at a fixed price. After 1977, the support level was allowed to fluctuate and we have had higher sheep numbers from that time up to 1982, when agricultural recession hit and we had some drought in the major sheep producing areas. Since 1985, beginning in 1986, we have had 4 successive years of increasing sheep numbers.

NOW IS NOT THE TIME TO STRIP THE PROGRAM OF THE COMPONENTS THAT MAKE IT SUCCESSFUL

The Wool Act is working. Now is not the time to strip the program of the components that make it successful in an effort to conform all commodity programs under a price support deficiency payment concept. All commodities are not alike, nor are their markets the same. The Wool Act is providing much needed income stability, incentives for quality improvement, self-funded promotion and market development programs, domestic wool supplies for military needs, and vital economic support to rural communities without being a burden to the taxpayer. No price support deficiency payment program can match up to that. In fact, these programs usually require a corollary loan program which increases the Government's cost through inventory storage and interest cost.

CONCLUSION

I certainly agree with the chairman's summation of the USDA proposal. Certainly, in our viewpoint, it is the worst one that we have heard yet, also. Your summary is saying the administration's recommendations would result in lower income, therefore lowering supply of lamb, wool and mohair, fewer producers, higher cost to the consumers because of lower supply, and a reduced incentive for quality.

The Wool Act is a law that has worked, a law that we can be proud of, and a law that should be renewed in its present form. Thank you.

[The prepared statement and supplemental comments of Mr. Miller follow:]

ASI

American
Sheep Industry
Association

6911 South Yosemite Street
Englewood, Colorado 80112-1414
303/771-3500, FAX 303/771-8200

STATEMENT OF

PIERCE MILLER
AMERICAN SHEEP INDUSTRY ASSOCIATION

BEFORE THE
UNITED STATES SENATE

AGRICULTURE, NUTRITION AND FORESTRY SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today to present the views of the American Sheep Industry Association on the wool and mohair provisions of the 1990 Farm Bill. My name is Pierce Miller. I am a fourth generation sheep and Angora goat rancher from San Angelo, Texas, and serve as the chairman of the Legislative Action Council for the American Sheep Industry Association.

The American Sheep Industry Association (ASI) is a federation of state member associations representing over 125,000 sheep and Angora goat producers in this country. The ASI was created in 1989 through the merger of the National Wool Growers Association and the American Sheep Producers Council. The history of these predecessor organizations go back over 120 years and represent the oldest livestock commodity group in the United States.

On behalf of the American sheep and Angora goat industry I ask for your support of a straight extension of the National Wool Act of 1954, (Wool Act) as a part of the 1990 Farm Bill. The law in its current form, has achieved its purpose of maintaining a viable domestic sheep and Angora goat industry. It has done this by providing market sensitive income stability to farm and ranch families; by providing incentives for quality improvement which has increased our competitiveness both in the domestic and international markets; and by stimulating demand for wool, mohair and lamb through the promotion and market development programs authorized under the Act. The Wool Act has also provided much needed economic support to rural towns and communities, including the Indian nations, and ensures a domestic source of wool for military use. The Wool Act does all of this without being a burden on the American taxpayer. Renewing the Wool Act will ensure the financial stability the industry needs at this time to continue expansion and provide rural economic support.

The Wool Act was designed to provide stability to producer incomes by being market sensitive. When wool prices are low, program payments provide income stability: and when wool prices strengthen, program payments go down. Over the history of the program, payments have gone down from one year to the next 17 times and have gone up 16 times. The program has worked to take the shock waves out of an erratic market and provide stability to farm and ranch family incomes. This income stability is equally significant to all sizes of operations.

The Wool Act has achieved its objective without being a burden on the taxpayer. The incentive payments depend on the tariffs collected on raw wool and certain wool products. Since its beginning, The Wool Act has used only $2.05 billion of the $4.68 billion (44 percent) of wool tariff collections made available for payments under the Act. The rest of the funds have remained in the Treasury supplementing other taxpayer funded programs.

The Wool Act also allowed for the sheep and Angora goat industry to conduct promotion and market development programs. This law provided the way for the industry to start one of the first producer funded self-help programs in American agriculture. Consumer demand for wool, mohair and lamb have increased as a result of the promotion programs. The ability to conduct these self-help programs is an essential part of the wool and mohair program design.

Even though wool was removed by the military from the List of Strategic Materials in 1960, the importance of wool to the military is still significant. The military, through the Defense Personnel Support Center (DPSC), continues to purchase and stockpile wool and wool/blend items equal to 11 percent of the domestic wool production. The DPSC also estimates that if mobilization were ever required, the military would have immediate needs for over 80 percent of the domestic production of textile quality wool.

The Wool Act has been successful in reversing a downward trend in sheep production. Since 1979 (after program restrictions keeping the support level fixed at 62 cents and later at 72 cents for 18 of the first 22 years of the program were lifted and the support level was allowed to fluctuate with costs) the U.S. sheep industry marked three years of successive growth. This was followed by the agricultural depression. Since 1986, the inventory has again shown four successive years of expansion, with inventory growing by 5 percent last year.

The Wool Act is working. Now is not the time to strip the program of the components that make it successful in an effort to conform all commodity programs under a price support-deficiency payment concept. All commodities are not alike, nor are their markets the same. The Wool Act is providing much needed income stability, incentives for quality improvement, self-funded promotion and market development programs, domestic wool supplies for military needs, and vital economic support to rural economies without a burden to the taxpayer. No price support-deficiency payment program can match up to that. In fact, these programs usually require a corollary loan program which increases the government's cost through inventory storage and interest. I can't help but believe that American farmers and ranchers would revolt at the thought of changing working, successful farm programs just for international trade considerations.

The Wool Act is a law that has worked...a law that we can be proud of...a law that should be renewed. Thank you.

SUPPLEMENTAL COMMENTS

Historical Background. When the Great Depression brought about a year of sharply declining wool prices in 1937, the first price support program for wool and mohair producers was established in March of 1938. This support program was established as a "loan" program. The inflationary impact of World War II resulted in a dramatic increase in the cost of wool production. The war also closed outlets in the European wool consuming countries and Japan causing a world surplus of wool. To assure an adequate support price and an efficient distribution system for wool to meet civilian and war needs, War Food Order No. 50 was issued by the Commodity Credit Corporation (CCC) in April of 1943. This order allowed for practically all of the domestic wool production to be purchased by the CCC at 42 cents per pound.

Wool stocks in the CCC's inventory steadily increased from 1943 to September, 1946, when the inventory reached 523 million pounds. A rise in the market price resulted in the stock being completely liquidated by the end of 1950. A 25 percent duty reduction in 1948 coupled with the mass liquidation in the U.S. sheep inventory triggered by a price freeze in 1942 resulted in increasing supplies of foreign wool pouring into the United States.

In 1953 the United States Tariff Commission (presently the United States International Trade Commission) instituted an investigation of wool imports to determine the effect of foreign wool and wool product imports on the domestic wool price support program. The Commission concluded that foreign wool was being imported "under such conditions and in such quantities as to materially interfere and, to render ineffective the price support program for wool undertaken by the U.S. Department of Agriculture." The Tariff Commission recommended a tariff increase of 10 cents per pound and as much as 50 percent of ad valorem.

President Eisenhower refused the Tariff Commission recommendation and proposed a revolutionary price support program that would be market sensitive, provide quality improvement incentives, support producer incomes without government costs of inventory storage, and provide for an industry self-help promotion and market development program...with no burden to the U.S. taxpayer.

The program would provide incentive payments to American sheep and Angora goat producers financed by portions of the tariffs collected on imported wool and wool products. The payments would be the difference between a calculated support price level and the actual national average market price. This difference would be expressed as a percentage of the national average market price. Each producer would receive a payment that would be the percentage times his actual receipts for the sale of his wool. This unique formula provides incentives for producers to improve the quality of their wool.

The National Wool Act of 1954 was passed by Congress and signed into law by the President Eisenhower on August 28, 1954. Payments were started with wool and mohair marketed after April 1, 1955. On February 21, 1955 the American Sheep Producers Council was organized and in 1966 the Mohair Council of America was organized to carry out the promotion and market development activities authorized by the law. In 1989, the American Sheep Producers Council was merged with the National Wool Growers Association to create the American Sheep Industry Association.

Program Benefits. The Wool Act has achieved its primary objective to "encourage the continued domestic production of wool (and mohair) at prices fair to both producers and consumers in a manner which will assure a viable domestic (sheep and Angora goat) industry" that makes a positive contribution to national security, the balance of trade and efficient use of our nation's renewable natural resources.

Not only were the original authors of the Wool Act concerned about producer incomes and market stability, but that concern has been reiterated by members of Congress and others through the discussions leading up to successive renewals of the Act. Most recently, the conferees on the 1990 Appropriations for Rural Development, Agriculture and Related Agencies reaffirmed their support of these objectives. In the conference report they state: "The conferees agree that it is essential that farm programs be operated in such a way as to ensure adequate income to farmers and stability in the marketplace." (House of Representatives Report, 101-361) The Wool Act is accomplishing these objectives.

Sheep are raised in all 50 states and their production constitutes a major source of income in 34 states. More than 125,000 farm and ranch families consider raising sheep and Angora goats an important part of their farming/ranching operation. In addition, the sheep industry employs nearly 50,000 people in a support capacity, many of whom are unskilled. The wool Act provides critical income for over 2,000 counties across the United States. Wool and mohair sales contributed approximately $152.8 million to our rural economy in 1988 and the incentive program added another $130.6 million. Manufacturing fabrics and yarns from domestic wool added an additional $210 million during 1988 and the wholesale value of apparel produced added $350 million. The American sheep and Angora goat industries contributes over $2 billion to the GNP, making a significant contribution to the U.S. economy.

Income Stabilization. Farm and ranch families rely on the Wool Act to provide income stabilization through incentive payments. The Wool Act is designed to allow the payments to be sensitive and to react to market prices. When market prices for wool and mohair are low, the incentive payments provide the necessary income stability. When market prices rise, payments do down. This built in "shock-absorber" is essential in the erratic wool and mohair markets. Over the history of the program payments have gone down from one year to the next 17 times and have gone up 16 times. Domestic wool prices have increased steadily in recent years as illustrated in the table below. The 1988 national average price of wool was double the 1986 price. This resulted in smaller wool incentive payments to producers, but gave a strong signal the industry was growing and improving.

Year	National Ave. Price	Incentive Payment	Total
1986	$0.67	$1.11	$1.78
1987	0.92	0.89	1.81
1988	1.38	0.40	1.78

The income support feature of the Wool Act applies equally to all sizes of operations, from the small to the large. In most operations, the profit or loss is calculated on a per-head basis. Thus the payment to a producer with five sheep is as important as it is to a producer with 5,000 sheep. In a survey recently conducted by Virginia Polytechnic Institute (VPI), producers were asked if the wool incentive program has been a major factor in their decision to continue their sheep operation. 69.1 percent of the producers responding to this question agreed or tended to agree with this statement. Well over 50 percent of the producers in the farm flock areas of the country agreed or tended to agree with this statement.

If there was a limit on the payment level, many small producers would decide not to continue raising sheep particularly in the Midwest and northeast regions of the U.S. Producers in the Indian nations would also be effected. In total, if payments under $100 had been eliminated in 1986, 33 percent of the 24,555 producers who received incentive payments on shorn wool would have been ineligible to receive a payment. The impact of this action would be hard felt in rural towns and communities.

Perhaps even more significant, payment limitations would also seriously impact the infrastructure of the industry. The American sheep and Angora goat industry is of a size that all segments, large and small, are needed to support the production and marketing structure. Any changes in program payments that would impact a segment of the industry may cause a reduction in production jeopardizing the stability of the industry infrastructure.

"No Cost" Supplemental Income. The Wool Act provides income stabilization to farm and ranch families vital to the continuation of domestic wool and mohair production at no net cost to the taxpayer.

The original Act stated that funds used for incentive payments are generated from "duties collected on and after January 1, 1953, on all articles subject to duty under Schedule 11 of the Tariff Act of 1930, as amended." The Act further limited the total payments to producers under the program to 70 percent of the amount of the duties collected on imported wool and wool products.

This funding procedure was reiterated in 1985 by Congress. "The National Wool Act of 1954...provides a permanent appropriation to the Commodity Credit Corporation, under which the Corporation is reimbursed each fiscal year an amount to cover program costs that cannot exceed 70 percent of the wool duties collected...under the Tariff Act of 1930....the costs associated with the wool price support program are not a burden on the United States taxpayer." (House of Representatives Report, 99-271, Part 1) President Bush reaffirmed this connection in his 1991 Budget by showing program expenditures in the form of payments and operational costs, and income in the form of tariff receipts.

The incentive payments depend on the customs receipts (tariffs) collected on raw wool and certain wool textile products. As noted earlier, the Act limits the payments to 70 percent of the tariffs collected for that year, and a cumulative total of 70 percent of the tariffs collected over the history of the program. When the tariffs are collected the monies go into the U.S. Treasury. The CCC calculates the amount of funds that are needed to make the payments to the producers, then borrows that amount from the Treasury. The U.S. Congress then appropriates funds to match the loan from the Treasury, and the CCC repays the loan. Even though this is a complex process, the income is related to the expenditures.

From 1954 through 1989 a total of $6.68 billion has been collected from wool tariffs. Under the Wool Act up to $4.68 billion could have been paid to producers in the form of incentive payments (70 percent of total tariffs collected). During that same period only $2.05 billion was actually paid to producers. The Wool Act has only used 44 percent of the funds available to it through the law, the rest have remained in the Treasury supplement taxpayer funded programs.

Consumer Demand. The Wool Act authorizes the creation of organizations to conduct promotions and market development programs. A year after the passage of the Act, the American Sheep Producers Council was organized. In 1966, the Mohair Council of American was formed. These organizations are funded through a deduction from the incentive payments which is authorized by the producers through referenda. Producer funds have financed aggressive promotion and market development programs that have resulted in world wide recognition of U.S. wool, lamb and mohair. These promotional efforts include radio commercials, television commercials, and visual and print advertising media, among other activities, focusing on the high quality and versatility of wool, lamb and mohair.

As a result of these promotional efforts, domestic wool consumption has increased by 6.1 percent in the last five years and the USDA reported a 7.7 percent increase in lamb sales for 1988, making lamb the fastest growing meat (red or white). Recently USA Today identified lamb as the "in" meat of the 90's. U.S. Mohair is viewed worldwide as the highest quality by specialty fiber experts..

Military Importance. The National Wool Act has created a reliable source of domestic wool for military use. Section 702 of the original Act states that "It is hereby recognized that wool is an essential and strategic commodity which is not produced in sufficient quantity in the United States to meet domestic needs...It is hereby declared to be the policy of Congress, as a measure of national security, to encourage the annual domestic production of shorn wool." While wool has not actually been listed in the list of strategic materials under provisions of the Strategic and Critical Materials Stock Piling Act (50 U.S.C., 98 et seq.) since 1960, authorities contend and evidence supports that wool is indeed a strategic material.

The Defense Personnel Support Center (DPSC) handles the purchasing of wool and wool/blend products for peacetime, the stock piling of supplies for its reserves, and the compilation of products necessary for mobilization. The U.S. Navy, Army, Air Force, Marine Corps and Coast Guard depend on the DPSC's wool procurement. DPSC published the following Wool Usage Study, in April of 1989:

Military Wool Statistics, Fiscal Year 1989
(reported in millions of pounds)

Wool Usage	Equivalent Clean lbs.	Equivalent Grease lbs.
Purchases for peacetime needs	4.052	8.104
Stock in war material reserves	0.628	1.256
Mobilization requirements	20.743	41.486
	25.423	50.846

These quantities amount to 9 percent of the 1988 domestic wool production for purchases, 2 percent for stocks and 46 percent (80 percent of textile quality wool) for mobilization.

The Air Force Chief of clothing, Colonel Kenneth W. Shedd confirmed his position in his 1984 statement:

> You are aware of the many applications of wool through analysis; I am aware of their applications through personal use. Whether it is in the Arctic or high-level flight, I have personally judged the effectiveness of wool garments. Our nation depends on (the sheep industry) to take pride in its individual efforts to produce the very best product you can. If, God forbid, our nation should be faced with another conflict in the future, wool will be as important then as it has been in the past. The development of modern aircraft and sophisticated equipment will never negate the need for the personal protection and comfort that wool can provide.

Efforts have been made to replace wool garments with synthetics. The U.S. Navy Safety Center discovered that when exposed to temperatures of 500 degrees Fahrenheit, fabrics of 100 percent polyester pose a serious burn hazard because it melts and clings to the skin. Short of melting, polyester also has enough heat retention properties to convert a first degree burn scald into a second degree burn. During the Falkland Islands incident in the spring of 1982, sailors were forced to expose themselves to below freezing temperatures fighting fires in "number six" tropical dress uniforms made from cotton in order to avoid having the synthetic fibers melt and stick to their skins.

Even new "cold weather clothing systems" under development by the military have failed some safety and durability tests. In addition, there are some within the Defense Personnel

Support Center (DPSC) who question the advisability of using a petroleum based fiber garment as a part of the mobilization requirement. With the U.S. dependent on oil imports for 46 percent of its consumption, the availability of petroleum fuels for defense during a time of emergency is questionable, let alone the availability of petroleum for garments. Add to this the volatility of sea shipments of oil (and wool for that matter) from friendly overseas countries in an era of modern high technology warfare that can pinpoint ship movement with ease.

With the volume of domestic wool still used and the problems with safety and durability with synthetics, wool remains an important commodity for the military.

Quality Improvement. The Wool Act has also had an impact on wool quality, providing higher incentive payments for the higher quality wool necessary for current fashions. There is evidence that wool quality has improved--in the technical characteristics as well as in the packaging and preparation.

Producers in Texas and the range states - where 80 percent of the domestic wool supply is produced - have reported significant quality improvements. Combing trials conducted in 1984 and again in 1989 illustrate that the fineness of wool is increasing, as well as the length. Colored fibers are decreasing. These data are supported by other studies that show that between 1981 and 1988, the volume of wool in the fine grades (60's and finer) has increased by over 14 percent. Recent shipments of U.S. wool to a large wool textile company in West Germany document that U.S. wool is equal to or better than southern hemisphere wool in quality and other properties.

Recently, Richard Pactor, Executive Vice-President of Product Development and Styling for Forstmann, a major textile company said, "(American) wool is as strong as ever. It's just as important, maybe of more importance. I have seen a noticeable improvement in the quality of the American wool clip." The Wool Act has been successful in improving the quality of U.S. wool.

Rural Economic Support. In rural areas, sheep producers support not only themselves, but the businesses of their friends and neighbors with their patronage. About 350,000 people in small communities across the United States exist on income generated by the sheep industry. The sheep producer and the wool and mohair program provide critical income for 70 percent - over 2,000 - of the 3,042 counties in the United States. The share of sheep income as a percent of total agriculture is over 50 percent in hundreds of these rural counties.

Benefiting from the Wool Act also are the approximately 50,000 persons involved in a support capacity to the sheep and Angora goat industry. The combined salaries of the support personnel totals an estimated $488 million, of which a significant proportion goes to unskilled and semi-skilled labor.

The Wool Act also benefits the more than 25,000 families in the Navajo Nation who rely on wool and mohair as a major income source. These families maintained over 500,000 sheep in 1988, primarily for wool production. In some cases, sheep production is the only income source for the family. The wool program added an average of $850 to these family incomes in 1988 and $1,250 in 1987. The importance of the added income becomes clear when compared with the average Navajo family income in 1988 of $1,850.

Conclusion. The Wool Act has fulfilled its objective of maintaining a viable sheep and Angora goat industry while providing economic support to rural communities and a supply of domestic wool for military needs without being a burden on the American taxpayer. Each of the components of the program (i.e. quality incentives, market sensitive payments, payments to all levels of production, and promotion and market development programs) contribute to this success. Changes to the program that would effect one or more of these components would limit the ability of the program to continue to meet its objective.

We ask for a straight extension of the National Wool Act of 1954, as amended, in the 1990 Farm Bill.

Senator **Conrad**. Thank you very much, Mr. Miller.

Mr. Caine.

STATEMENT OF WALLY CAINE, MEMBER, INDIANA SHEEP BREEDERS ASSOCIATION, INC., PLYMOUTH, IN

Mr. **Caine**. Thank you, Mr. Chairman and members of the subcommittee.

INTRODUCTION

I appreciate the opportunity to appear today to present the views of the Indiana Sheep Breeders Association on the wool and mohair provisions of the 1990 farm bill. My name is Wally Caine. I reside in Marshall County, Plymouth, Indiana and I am a sheep producer. I support the Wool Act in its current form and ask for its renewal.

I represent the farming operations with small flocks of sheep, the farm flock, that are mainly located in the Midwest and Eastern United States. In this part of the country, sheep production is one of several enterprises on the farm or is a supplemental enterprise to off-farm employment.

ADDRESSING THREE AREAS

I would like to address three areas: first, the current expansion in the number of farms with small sheep flocks; second, the importance of the Wool Act to the individual who has a small flock; and third, the need to keep the incentive payments for all sizes of production, both large and small.

THE CURRENT EXPANSION IN THE NUMBER OF FARMS WITH SMALL SHEEP FLOCKS

During the last decade, sheep production in the Eastern and Midwestern United States has steadily grown. We have seen intensive growth in Minnesota, Wisconsin and Iowa. Iowa, in particular, is the ninth largest sheep production State in the country. During 1988 and 1989, 12 of the Midwestern farm flock States expanded sheep production.

FUTURE FOR SHEEP PRODUCTION LOOKS BRIGHT

The future for sheep production in these areas looks bright. Sheep provide an off-season use for family farm labor and provide off-season income from lamb and wool sales. They utilize marginal land, crop residues, orchards, and small lots easily without permanent fencing. They can use the facilities and equipment of other enterprises, like dairy. They are adaptable to small acreage and can be placed in densely populated areas. Farmers can start a sheep enterprise with a small investment. Lenders view sheep as a viable, value-added supplemental enterprise to farming. Some industry observers expect to see the Midwest and Eastern sheep production, which was initially started in this area of the United States, once again play an important role in the sheep industry in this country.

THE IMPORTANCE OF THE WOOL ACT TO THE INDIVIDUAL FLOCK OPERATOR

The second area I wish to address is the importance of the Wool Act to the individual flock operator. I have seen many flocks start small and then grow in size to 200 to 300 ewes. An important input into the decision to expand production is the returns from the sale of wool and the wool incentive payment. Just as sheep provide a supplemental, none-the-less important, contribution to a farming operation; so the returns from wool make an important contribution to the sheep enterprise. Not having the wool incentive payments would stifle the growth in the use of sheep as a component in the mix of farm enterprises. In addition, the Wool Act provides economic support to hundreds of farming communities through the Midwest and Eastern United States.

I know of four recent agricultural college graduates who started small farm flocks. Their desire is to expand the sheep enterprise to be one of their most profitable farm enterprises. They will be able to succeed in doing this if they are not penalized from the start by preventing them from receiving the incentive payment because they are small.

In Indiana we have approximately 3,800 sheep producers. The average flock size is 22 and it varies from 5 ewes to over 450 plus. Producers raising small flocks are just as serious about the per-ewe costs and returns as are the large flock owners. The wool incentive payments are available to producers if they choose to participate. Many of the very small producers, who may be raising sheep as a hobby choose not to participate. Those who do feel that sheep are important to their operation take the time to sign up. There is no need to impose payment limits on small operations.

On the other end, there is likewise no need to impose payment limits to large operations. As small producers, we would be dramatically hurt, and maybe forced out of the sheep business, if a limit were imposed on large producers. The American sheep industry is of a size that we are dependent on the volume of production that maintains the packing plants, processors, wool mills and other infrastructure that allows us to produce and market our products. Without any segment of our production base, small or large, our ability to get our products to the consumers will surely be jeopardized.

In the last decade of the century, we will learn to care more for our rural environment. We will continue to see expansion of family oriented rural living. More emphasis will be placed on environmentally compatible production and "natural" weed controls. Marginal land will return to pasture and trees. Within this trend, sheep production is a natural fit.

In Indiana, we are known as a basketball State. We have only one high school tournament. The large and the small play in the same tournament with the same set of rules. Many times, small schools win. Desire, improvement and goals lead to winning. I think the sheep industry should be left the same way, by not putting limits on the Wool Act.

Thank you.

Senator CONRAD. Thank you very much, Mr. Caine.

Ms. Jake.

STATEMENT OF ROZITA JAKE, NAVAJO WOOL AND MOHAIR GROWERS ASSOCIATION, WATERFLOW, NM

Ms. Jake. Thank you, Mr. Chairman.

INTRODUCTION

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to present the views of the Navajo sheep and goat producers on the wool and mohair provisions of the 1990 farm bill.

My name is Rozita Jake. I am a Navajo Indian from the Navajo reservation. The Navajo Indians are situated in a 26,000 square miles of the reservation covering the States of Arizona, New Mexico, and parts of Utah.

STATISTICS

The Navajo Wool and Mohair Growers are a member of the American Sheep Industry Association producers. The Navajo Indians have a population of about 180,000 individuals. About 25,000 families have approximately 500,000 heads of sheep and goat.

The primary purpose of raising sheep and goat is for the production of wool, mohair and sales of lamb. The dependency on wool, mohair and lamb constitute a major source of income for the Navajo family; 80 percent of the elderly Navajos have limited education, many of whom are unskilled.

The production of wool and mohair added on an average of about $850 to the Navajo family income in 1988 and $1,250 in 1987. The importance of the income becomes clear when compared with the average Navajo family income in 1988 of $1,850.

THE INCENTIVE PAYMENT IS VERY IMPORTANT TO THE NAVAJO WOOL AND MOHAIR PRODUCER

The incentive payment is very important to the Navajo wool and mohair producer. The payments are made are on the difference between a price support level on the national average wool price. This payment to wool and mohair producers is to encourage the production of higher quality wool and mohair and to improve the wool marketing programs.

THE NAVAJO PEOPLE RELY ON THE RENEWAL OF THE NATIONAL WOOL ACT

The Navajo people rely on the renewal of the National Wool Act. It is important because:

First, the incentive payment provides a reliable source of income for wool, mohair, food and fiber.

Second, the usage of wool and mohair fibers, such as weaving of blankets and clothing has provided jobs and other opportunity in economic development.

We, the Navajo, as a sheep and goat producer, urge you to renew the Wool Act, which is part of the 1990 farm bill. Without your support for the renewal of the Wool Act, the families that rely on the income of wool and mohair production could do very little. But to ask for assistance from States to make up the loss of the income because of their limited education. Thank you.

[The prepared statement of Ms. Jake follows:]

Navajo Wool Marketing Industry
"An Enterprise of The Navajo Tribe"
(505) 368-4356
P.O. Box 719 Shiprock, NM 87420
(505) 368-5125

STATEMENT OF

ROZITA JAKE
NAVAJO WOOL & MOHAIR GROWERS ASSOCIATION

BEFORE THE
UNITED STATES SENATE
AGRICULTURAL, NUTRITION AND FORESTRY
SUBCOMMITTEE
ON
AGRICULTURAL PRODUCTION & STABILIZATION OF PRICES

MARCH 2, 1990

Navajo Wool Marketing Industry
"An Enterprise of The Navajo Tribe"
(505) 368-4356 P.O. Box 719 Shiprock, NM 87420 (505) 368-5126

February 23, 1990

Statement of
Rozita Jake
Navajo Wool & Mohair Growers Association
Before The
U.S. Senate
Agricultural, Nutrition and Forestry
Sub-Committee on
Agricultural Production & Stabilization of Prices

Mr. Chairman, Members of the Senate Sub-Committee,I appreciate the opportunity to appear before you, to present the views of the Navajo sheep and goat producers, on the wool and mohair provisions of the 1990 Farm bill.

My name is Rozita Jake, I am a Navajo Indian from Waterflow, NM. I am representing the Navajo Wool and Mohair producers. The Navajo Indians are situated in a 26,000 square miles of the reservation covering the states of Arizona, New Mexico and parts of Utah.

The Navajo Wool and Mohair growers are a member of the American Sheep Industry Association representing over 125,000 sheep and goat producers in the country. The Navajo Indian reservation has a population of an estimated 180,000 individuals. Within this 180,000 individuals about 25,000 families raised approximately 500,000 heads of sheep and goat.

The primary purpose of raising sheep and goat is for the production of wool, mohair and sales of lamb. The dependency on wool, mohair and lamb constitute a major source of income for the Navajo family. 80% of the elderly Navajos have limited education, many of whom are unskilled.

The production of wool and mohair added on an average of $850.00 to the Navajo family income in 1988 and $1,250.00 in 1987. The importance of the income becomes clear when compared with the average Navajo family income in 1988 of $1,850.00 (Source: Navajo Nation Fax & Utah State University Navajo Sheep Project).

The Navajo Nation is reported as a unit even though it is composed of thousands of individual sheep producers. The Nation provides a cooperative setting of production and marketing that increases the efficiency of its members.

ESTIMATED POTENTIAL COST IMPACT

Estimated Flock of 134,000 (4,000 Rams, 130,000 Ewes)

Wool Income

134,000 x's 7.8 lbs. per fleece = 1,045,200 lbs.

1,045,200 lbs. x's $1.34 per lb. = $1,411,020
incentive payment, shorn wool = $ 421,895
incentive payment, unshorn wool = $ 143,270
Total Wool Income $1,976,185

Lamb Income

130,000 ewes x's 1.1 lamb per ewe = 156,000
less replacement, death, & home use= -31,200
available remaining for sale 124,800 lambs

sold as lambs: 31,200 x's 55 lbs. x's 1.45 per lb.= $2,488,200
sold as feeders:93,600 x's 75 lbs. x's 0.75 per lb.= $5,265,000
$7,753,200

Cull Sheep Income

13,400 x's 115 lbs. x's $0.35 per lb. = $539,350

Total 1988 Income

Total Wool Income	$1,976,185	
Lamb Income	$7,753,200	
Cull Sheep Income	$ 539,350	
Total Income	$10,268,735	(About $1,000 per Navajo family)

The incentive payment is very important to the Navajo wool and mohair producer. The payments are made on the difference between a price support level on the National average wool price. This payment to wool and mohair producers is to encourage the production of higher quality wool and mohair and to improve wool marketing programs.

Although the number of heads of sheep and goat decreases now and then, the wool and mohair marketing within the Navajo reservation is well and making steady progress.

The Navajo people rely on the Renewal of the National Wool Act. It is important because:

1. The payment provides a reliable source of income for wool, mohair, food and fibers.
2. The usage of wool and mohair fibers, such as weaving of blankets and clothing has provided job and other opportunity in Economic Development.

We, the Navajo, as a sheep and goat producer urges you to renew the Wool Act, which is part of the 1990 Farm Bill.

Senator CONRAD. Thank you very much.
Mr. Mayer.

STATEMENT OF RALPH P. MAYER, PRESIDENT, TEXAS SHEEP & GOAT RAISERS' ASSOCIATION, SONORA, TX

Mr. MAYER. Mr. Chairman and distinguished members of the subcommittee.

INTRODUCTION

My name is Ralph P. Mayer. I am a ranchman from Sonora, Texas, center of the sheep and goat raising area of the State of Texas. I am also president of the Texas Sheep & Goat Raisers' Association, and represent its 2,500 members. Thank you for the opportunity to appear before you to express our views concerning the renewal of the National Wool Act section of the 1990 farm bill.

THE FEATURE OF THE INCENTIVE PAYMENT

The most unique feature of the National Wool Act of 1954, and one which no other support program I know of utilizes, is the incentive payment. This feature is an incentive for the rancher to produce the best quality wool or mohair he can. Because of the percentage formula used to calculate the payment, the better the quality, the greater will be the return. Is that not what motivates most of us in business?

ASPC HELPING TO IMPROVE QUALITY OF OUR DOMESTIC WOOLS THROUGH EDUCATION AND PROMOTION PROGRAMS

The American Sheep Producers Council (ASPC) has been very instrumental in helping to improve the quality of our domestic wools through its education and promotion programs. In cooperation with the National Wool Growers Association, they helped to initiate the Sheep Industry Development Program and the National Sheep Improvement Program, both of which are designed to improve the quality of production of wool. In 1983, they initiated the "Pack It With Pride" program to encourage better market preparation practices. Last year tests were conducted by a West German firm on samples of American wool to determine how our wool compares with wool from different countries around the world. The results of this test indicated our wool compared very favorably with all of the wools with which they were compared.

These are examples of the benefits of the self-help program provided for in the National Wool Act. This also points out how valuable to the sheep industry the National Wool Act is.

CONTRIBUTING TO A POSITIVE BALANCE OF TRADE

Since the inception of the National Wool Act, the revenue generated from mohair sales has totaled over $750 million. And, since 90 percent of the mohair produced in the United States is exported, it is not difficult for one to realize that the sale of mohair overseas brings dollars back home. Additionally, Europe and Asia are the two largest consumers of U.S. mohair. Because of this fact, the Mohair Council of America, created under section 708 of the Wool Act, has done extensive promotional work in Europe and has succeeded in attracting a number of buyers for Texas mohair. Most of the raw mohair that is exported remains overseas. Very little makes its way back to the United States in the form of finished goods. So mohair very definitely contributes to a positive balance of trade. For this reason, its production should be encouraged.

CONCLUSION

The National Wool Act has operated as planned. It has been a program which has not cost the taxpayers one single penny. It does work. Our Texas producers have benefited greatly from its effects. Our rural communities have also benefited tremendously. I honestly do not believe you can devise another program, a no cost program if you will, that can have as beneficial an effect on the improvement of wool and mohair quality and be of such great benefit to the rural communities of our Nation. We urge you to renew the National Wool Act and allow it to operate just as it has so successfully done. "If it is not broke, there is no need to fix it."

[The prepared statement of Mr. Mayer follows:]

STATEMENT OF

RALPH P. MAYER
TEXAS SHEEP & GOAT RAISERS' ASSOCIATION
BEFORE THE
UNITED STATES SENATE
AGRICULTURE, NUTRITION AND FORESTRY
AGRICULTURE PRODUCTION AND STABILIZATION OF PRICES

Mr. Chairman, and distinguished Members of the Subcommittee.

My name is Ralph P. Mayer. I am a ranchman from Sonora, Texas, center of the sheep and goat raising area of the State of Texas. I am also President of the Texas Sheep & Goat Raisers' Association, and represent its 2500 members. As of January 1, 1990, there were 1,870,000 head of sheep in Texas which produced 18,200,000 pounds of wool in 1989. There were 1,600,000 head of Angora goats which produced 15,400,000 pounds of mohair in 1989. These are, by far, the largest numbers of sheep and goats within any of the 50 states of these United States. This will give you an idea of the scope of the sheep and goat raising industry in Texas. Thank you for the opportunity to appear before you to express our views concerning the renewal of the National Wool Act section of the 1990 Farm Bill.

The most unique feature of the National Wool Act of 1954, and one which no other support program I know of utilizes, is the incentive payment. This feature is a built-in incentive for the producer to produce the highest/best quality wool or mohair he can, because the highest/best quality product is the one which will command the highest price. Because of the percentage formula used to calculate the payment, the better the quality, the greater the return. Thus, it behooves the producer to strive to produce the highest/best quality product because the monetary return is greater. Isn't that what motivates most of us?

(2)

There seems to be a question in some people's minds as to whether the National Wool Act has accomplished, or is accomplishing, one of its **IMPLIED**, but not **STATED** objectives, that of improving wool quality. Since the word 'quality' only appeared in Sec. 708 of the National Wool Act, which Section provides for the Secretary of Agriculture to allow certain groups to establish marketing and promotion programs with deductions from the incentive payments made to producers, there evidently was no expressed need for defining what was meant by the word 'quality'. However, according to the dictionary, the word 'quality' is defined as 'the level of excellence of something', and also, 'that which makes or helps to make anything such as it is'. Common sense, and common usage, indicates to us that the higher the quality of any object of value, the higher the price paid for it. It stands to reason that those of us wanting to obtain the highest price for our product would put forth some extra effort to provide the quality of product that will bring the highest price. With the incentive that is built into this program, the extra effort is encouraged.

In the wool industry, the longer staple, finer/smaller diameter fiber is the most desireable because it is used to make the finest, softest, lightweight, worsted fabrics. I daresay most of you distinguished gentlemen sitting here today are wearing some very fine, lightweight, worsted wool suits, that were also very expensive! Why did you buy them? I am sure there is a plentiful supply of cheaper suits made from synthetic fibers. I think most of you, like me, choose wool because of its **QUALITY**.

The market price of wool is based on its grade (length and finess) and yield (the amount of clean wool left after the dirt, grease and foreign material has been scoured out). Where the producer can have the most direct and immediate impact on the market quality of his wool is through his management practices and market preparation. He certainly wouldn't consider driving his flock through a field of cockleburrs or thorny briars prior to shearing them. Nor would he work them in the rain or mud. Shearing and packaging the wool or mohair is the most critical step of all in processing for market. That old ewe , or old nanny, has just spent months growing a beautiful fleece. Its market quality can be severely damaged in just a few short minutes by a careless shearer doing a poor job, or a picker grabbing a handful of dirt or tags up with the clean fleece! Good management is a key to producing a good product, as it is in any manufacturing process. And, speaking for us Texans, I can truthfully tell you that great strides have been made in Texas in the preparation and handling of our wool and mohair. Through the incentive payment program we are being compensated for our efforts! I would hesitate to speculate on what effect there might be if the incentive for improvement is eliminated.

There is another aspect of 'quality' in wool and mohair production in the area of genetics. Great progress has been made in Texas in improving the quality of sheep and goats to grow longer, finer wool and mohair through breeding and selection programs, which are carried on by the majority of our producers. A Ram Performance Test has been on-going at the Texas A&M Experiment Station near Sonora since 1949. Individual producers have participated in the program as a means of improving their herds, thus making available higher quality rams to those producers who don't raise their own rams for breeding. A similar program was also started for Angora billies several years ago. There are also similar tests being conducted in Wyoming and some of the other Western States. Selection and breeding programs are slow, time consuming activities which sometimes takes several years to determine the progress being made. It can sometimes be very discouraging. However, because he knows the compensation will be greater when he succeeds in making improvement in production and quality, the rancher will continue the effort. Again, the incentive payments certainly contribute to this continuing effort.

Breeds of sheep, and the type of wool they grow, have a great influence on the end-use of their wool. Sheep are usually classified as either finewool sheep or meat-type sheep. The wool produced on meat-type sheep is a coarser grade and generally classified as 'medium wool'. The meat-type breeds also include the 'blackface' breeds. The black fiber produced in their fleeces limits the use of the wool to darker colored fabrics. These wools are utilized mostly in heavy wool coats, blankets, sweaters, socks, hand knitting yarns, etc..

In Texas the predominant breed is a finewool sheep called Rambouillet. Not only does it produce the finest wool, but it also produces a good-quality lamb. We like to think of the Rambouillet as a dual-purpose sheep in Texas. However, since the lamb is not considered to be as good as that produced from the meat-type breeds, many ranchers use a meat-type ram on their Rambouillet ewes. If that ram happens to be of the 'blackface' breed, then great precaution must be taken not to contaminate the finewool from the Rambouillet ewe, with the black fibers from the ram, or his offspring.

The American Sheep Producers Council (ASPC), which was formed in 1955 under the provisions of the National Wool Act, has been very instrumental in improving the quality of our domestic wools through its education and promotion programs. In cooperation with the National Wool Growers Association (NWGA), they helped to initiate the Sheep Industry Development Program (SID) and the National Sheep Improvement Program (NSIP), both of which are designed to improve the quality of production in the sheep industry. In 1983 they initiated the "Pack It With Pride" program to encourage better market preparation practices. Last year tests were conducted by a West German firm on samples of American wool to determine how our wool compares with wool from different countries around the world. The results of this test, on file with the American Sheep Industry Association (ASI), indicated our wool compared favorably with all of the wools with which they were compared. This is an example of the benefits of the 'self-help' program provided for in the National Wool Act, that feature of the Act which provides that deductions from the producers' checks may be used for development and dissimination of information on product quality, production management and marketing improvement. This points out how valuable to the sheep industry the National Wool Act is!

In spite of efforts to detract from the fact that it does not **COST** the government one penny, the legislative history of the National Wool Act unequivocally ties the wool and mohair program to the collections made from tariffs on raw wool and certain woolen textile products imported into the United States. That was, and is, the intent of the authors of the National Wool Act. **THE PROGRAM IS FUNDED FROM THE MONIES COLLECTED FROM THE TARIFFS ON IMPORTED WOOL AND WOOLEN PRODUCTS!** Those of us in the sheep industry will never accept that the accounting manipulations of the Treasury Department and the CCC prevent the source of these funds from being known. In spite of the tremendous benefits received by the sheep and goat industry **FROM THE COLLECTIONS ON WOOL TARIFFS** our right to have this program is questioned primarily by those who want the use of those funds!

In the southwestern part of the United States, and primarily in Texas, sheep and goat ranching is a common practice, and has been for over 100 years. Because they run side-by-side, Angora goats are just as important to the utilization of the rangeland as sheep. However, mohair is a speciality fiber and is the primary product of value derived from the Angora goat. The United States produces 35% of the world's supply of mohair. The United States, South Africa and Turkey account for 95% of the free wold's supply. Since the major part of the Turkish clip is processed and consumed internally, or bartered to the USSR, the free world depends on the United States and South Africa to supply their raw mohair needs, particularly the higher quality, fine hair.

Since mohair is a speciality fiber, its market is subject to many problems, and due to the volatility of market prices, both producers and end-users seek some measure of stability through whatever means can be found. The incentive payment helps to provide some stability, not only with the income derived from the program, but from the extra creditability it gives the producer for financing his operations. Lending institutions look quite favorably upon those ranchers whose operations include some Angora goats.

Texas produces over 90% of the mohair raised in the United States. However, this figure may be in the process of changing, as more and more Angora goats are being sent to other states. Ranchers and farmers in other states are finding that, for many species of undesireable brush and weeds, The Angora goat is a better control 'tool' than chemical herbicides, which are becoming more difficult to use because of EPA regulations. In recent years Angora goats have moved into other states such as North Dakota, Minnesota, Michigan, Ohio, Oklahoma, Arizona and New Mexico. In fact, there are some 38 states in which Angora goats are now being produced. They are being used as a means of diversification in farm flock programs, to supplement the income from those operations while helping to control such plants as leafy spurge, multiflora roses and other problem plants.

Another question in the minds of many is why is mohair included in the National Wool Act? Mohair is the class of wool derived from the Angora goat. In every dictionary I have looked in 'wool' is defined as "the fine, soft, curly hair that forms the fleece of sheep **and certain other animals.**" In some definitions it continues by stating that those **certain other animals** include goats.

The Wool Product Labeling Act of 1933 included 'mohair' as 'wool'. During World War II, The War Production Board classified mohair as 'war-quality wool'. Many countries in the world today refer to mohair as 'mohair wool'. So, although the word 'mohair' did not appear in Sec. 702 of the National Wool Act, testimony presented at hearings on the wool program pointed out that mohair had always been treated as wool. I would contend that the use of the word 'wool' in Sec. 702 was in a generic sense and included all forms or classes of wool. Further evidence of this is bourne out by the fact that in Sec. 703, immediately following, and throughout the rest of the Act, reference is made specifically to the 'support price of mohair', and states the method by which mohair will be supported. So when the question is posed "why is mohair included in the National Wool Act?" , it was because it was being considered in the same light as any other wool. I would also contend that the same objectives cited in the Act pertaining to wool apply equally to mohair.

If you look to mohair as a means to promote the general economic welfare, think of the thousands of ranchers and farmers who raise goats and sheep. It is most definitely a source of their economic welfare! There are literally millions of acres of land in the southwestern area of the United States that are not suitable for raising any livestock other than sheep or goats. What better use can be made of this marginal land other than utilizing it for a cash crop such as mohair, wool or lamb? As in the real estate business, we utilize the old maxim in the ranching business of "highest and best use." Thus, bringing into focus another of the objectives, "efficient use of the nation's resources," much of this marginal land's 'highest and best use' is for the production of sheep and goats.

Referring again to economic welfare, I don't believe it necessary to remind you of the generally poor state of economic welfare that thousands of our rural communities are in right now, today! In the areas of Texas where we have the benefit of the incentive payments on wool and mohair, thousands of dollars of income are generated each year into these rural communities when the incentive payments are received in early April. That is the time of year when very few ranchmen are operating on their own capital, and the incentive payment is a key to their being able to get through the busy spring, without incurring more interest expense, until they have some mohair or wool or lambs to sell and pay back their bankers.

Let me give you an example. These figures were just made public last week. My home county, Sutton County, produced sales of 387,244 pounds of wool in 1989 at an average price of $2.01/lb.. We produced 958,690 pounds of mohair at an average price of $1.75/lb.. Although the actual figures haven't been released it is estimated that $3.4 million dollars will be paid in incentive payments. Imagine what the impact of that amount of money will be when injected into the economy of the small community of Sonora, population slightly over 3000 people! These last few years, with the oil and gas economy of Texas such as it has been, these types of small communities have suffered greatly. Quitting business and going broke have been common occurences. Many ranches have been for sale! Using the national average figure that a dollar will turn over seven times within a community, one can see the impact these incentive payments have in smaller communities. And this is just one out of the thousands that are scattered across rural America! Yes, the National Wool Act is contributing to the stated objective of promoting the general economic welfare!

There is also the objective of promoting a positive balance of trade. Since the inception of the National Wool Act, the revenue generated from mohair sales has totaled over $750 million dollars. And, since 90% of the mohair produced in the United States is exported, it is not difficult for one to realize that the sale of mohair overseas, brings dollars back home! Additionally, Europe and Asia are the two largest consumers of U.S. mohair. Because of this fact, the Mohair Council of America, created under Sec. 708, has done extensive promotional work in Europe and has succeeded in attracting a number of buyers for Texas mohair. They are beginning to work in Japan and other Asian countries along the same lines. Most of the raw mohair that is exported remains overseas. Very little makes its way back to the U.S. in the form of finished goods. So mohair very definitely contributes to a positive balance of trade. For this reason its production should be encouraged even more.

The National Wool Act has operated as planned. It has been a program which has not cost the taxpayers **one single penny**! **Itdoes** work! Our Texas producers have benefited greatly from its effects. Our rural communities have also benefited tremendously. I honestly don't believe you can devise another program, a "**no cost**" program, if you will, that can have as beneficial an effect on the improvement of wool and mohair quality and be of such great benefit to the rural communities of our nation. We urge you to renew the National Wool Act and allow it to operate just as it has been so successfully doing. "If it isn't broke, there's no need to fix it!"

Senator Conrad. Thank you very much, Mr. Mayer.
Mr. Gilbert.

STATEMENT OF ROBERT N. GILBERT, SECRETARY-TREASURER, MONTANA WOOL GROWERS ASSOCIATION, HELENA, MT

INTRODUCTION

Mr. Gilbert. Mr. Chairman and members of the subcommittee, my name is Bob Gilbert and I am secretary-treasurer for the Wool Growers Association with offices in Helena, Montana. We have just over 3,000 dues paying members and we appreciate the opportunity to appear here today.

THE FOOD SECURITY ACT OF 1990 IS IMPORTANT TO MONTANA SHEEP PRODUCERS

The Food Security Act of 1990 is important to Montana sheep producers. It is also important for our sparsely populated State's economy, and the small rural towns that depend on agriculture and in particular sheep raising for their existence. For Montana and these rural communities made up of small family farmers and ranchers, as goes agriculture so goes the economic well-being of that community.

Sometimes when people mention sheep raising in Montana, there comes to mind some operation with vast land holdings grazing thousands of heads of sheep. That is not true in 1990. Montana has perhaps four operations within our State with over 5,000 head of sheep, and perhaps only 250 with a band, which is about 1,000 head of sheep. The majority of sheep producers in Montana today are those running small flocks of sheep in order to be diversified—protecting themselves from market ups and downs by not being dependent on only one commodity. Sheep and cattle we know graze perfectly well together with effective pasture utilization. Sheep are also being used in many parts of Montana for noxious weed control. Leafy Spurge, a noxious weed, has taken over many thousands of grazing acres, particularly in the western portion of the State, and is effectively controlled by sheep who thrive on the weed.

PRICE STABILITY

The Wool Act in 1988, which is the last wool marketing year that we have data available, provided 3,372 family farms with price stability. These producers and their small communities benefited from this program in Montana to $2.5 million. Those dollars went for ranch improvements and the hiring of labor and basic human necessities, equipment purchases and perhaps most important, for the payment of taxes which provides rural Montana with services such as law enforcement, county government, and schools to preserve a rural lifestyle.

MONTANA DID SEE AN 11 PERCENT INCREASE IN SHEEP NUMBERS LAST YEAR

Montana did see an 11 percent increase in sheep numbers last year. There are many factors present for that increase. Decreased drought conditions being one, but improved wool prices and price stability fits right into the ability for Montana ranch families to stay in sheep production.

OPPOSE IDEAS THAT MIGHT CHANGE THE INCENTIVE PHILOSOPHY

We also note that Montana producers have been actively preparing a better wool clip—keeping it clean, taking out the bellies, skirting the finer grades—all that is rewarded due to the unique incentive provisions of the Wool Act. We oppose ideas that might change that incentive philosophy that rewards those who work harder to present a salable product.

WE BELIEVE THE PROGRAM HAS WORKED TO BENEFIT NOT ONLY THE SHEEP PRODUCERS OF THIS NATION, BUT THE NATION ITSELF

Montana was supportive of the National Wool Act some 36 years ago. We believe the program has worked to benefit not only the sheep producers of this Nation, but the Nation itself. As has been pointed out, the program enhances the Treasury by small tariffs and ad valorem taxes on imported woolen goods. The program provides price stability to a market that is traded world-wide and a price set, incidentally, by Australia with their floor pricing system.

A FAVORABLE FACTOR WHEN IT COMES TO BALANCE OF TRADE PROBLEMS FACING THE UNITED STATES

The program encourages domestic wool production, certainly a favorable factor when it comes to balance of trade problems facing the United States. The Wool Act provides for a self-help wool and lamb promotion and marketing program. We encourage your renewal of this program.

PROPOSAL FROM OMB AND THE ADMINISTRATION WAS ONE OF THE WORST IDEAS THAT YOU WILL SEE

Senator, I would also like to add that I certainly agree with your opening comments, when you observe that the proposal from OMB and the administration was one of the worst ideas that you will see. I have not seen as many as you have, but I certainly agree and I would tell you that I would certainly hate to be in the position of those that have to support that proposal in future hearings.

Thank you.

[The prepared statement of Mr. Gilbert follows:]

MONTANA
WOOL GROWERS
ASSOCIATION

STATEMENT OF

ROBERT N. GILBERT
MONTANA WOOL GROWERS ASSOCIATION
SECRETARY-TREASURER

BEFORE THE
UNITED STATES SENATE

AGRICULTURE, NUTRITION AND FORESTRY
SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

Mr. Chairman and Members of the Subcommittee, my name is Bob Gilbert and I am secretary-treasurer for the Montana Wool Growers Association, with our offices in Helena, Montana. We have just over 3,000 dues paying members and we appreciate the opportunity to appear before this important committee of the United States Senate.

The Food Security Act of 1990 is important to our state's sheep producers. It is also important for our sparsely populated state's economy, and the small rural towns that depend on agriculture and sheep raising for their existence. For Montana and these rural communities made up of small family farmers and ranchers...as goes agriculture so goes their economic well-being.

Sometimes when people mention sheep raising in Montana, there comes to mind some operation with vast land holdings grazing thousands of sheep. That is not true in 1990. Montana has perhaps four operations in our state with over five thousand head of sheep and perhaps 250 with a band (about 1,000 head) of sheep. The majority of sheep producers in Montana today are those running small flocks of sheep in order to be diversified--protecting themselves from market ups and downs by not being dependent on only one commodity. Sheep and cattle graze perfectly well together with effective pasture utilization. Sheep are being used in many parts of our state for noxious weed control. Leafy Spurge, a noxious weed, has taken over many thousands of grazing acres and is effectively controlled by sheep who thrive on the weed.

Montana saw an 11 percent increase in sheep numbers last year. There are many factors present for that increase. Decreased drought conditions being one, but improved wool prices and price stability fits right into the ability for Montana ranch families to stay in sheep production.

Montana producers have been actively preparing a better wool clip--keeping it clean, taking out bellies, skirting the finer grades--all that is rewarded due to the unique incentive provisions of the Wool Act. We oppose ideas that might change that incentive philosophy that rewards those who work harder to sell a higher quality product.

Montana was supportive of the National Wool Act some 36 years ago. We believe the program has worked to benefit not only the sheep producers of this nation, but the nation itself. As has been pointed out, the program enhances the Treasury by small tariffs and ad valorem taxes on imported woolen goods. The program provides price stability to a market that is traded world-wide. The program encourages domestic wool production, certainly a favorable factor when it comes to balance of trade problems facing the United States. The Wool Act provides for a self help wool and lamb promotion and marketing program. We encourage you to renew this program without change. Thank you.

Senator CONRAD. Thank you very much, Mr. Gilbert. I appreciate that observation. It is hard to conceive of how they came up with a proposal that has as many bad features as that one does.

Let me ask this of the panel, what would happen, in your judgment, to producers' income if the administration's proposal were adopted. Mr. Miller.

Mr. MILLER. Mr. Chairman, let me respond to that. I think there are several points there but the first one, and you noted in your summation, our price—and I tend to vary considerably with what the representative from the USDA had to say. Our incentive payment on wool would decrease by some 78 percent and on mohair our incentive payment received would decrease some 29 percent.

In fact, on the wool in 1988, the last marketing year we have numbers for, we would have received 11 cents per pound. Bear in mind they are not talking about a percentage payment of your gross receipts. We are talking about a commodity payment now. It would be a flat 11 cents per pound. That is at 90 percent of the 1985 support price.

If they drop that 90 percent down to 80, there would be no payment, zero. Also, we would lose a vehicle for our self-help checkoff program, that funds ASI right now. It would impact drastically also the Mohair Council and their promotions.

Senator CONRAD. Could you characterize what the effect would be on producers' income?

Mr. MILLER. If you take it down to 11 cents, I think we are losing not just some of the fringe, people on the perimeter of the industry. We are striking to the heart of the industry. When we talk about losing producers and what have you, we are talking about large and small.

Another tremendous change it has in there, it is going to remove quality that we have strived for for 35 years, in building up these herds. We will go back to producing a heavier grease fleece wool product and mohair product. That does not sell well on the domestic market. It does not sell well on the international market. All the efforts we have made for breeding programs, genetic improvements and trying to tie our standards to the international markets would be lost; there would be no incentive whatsoever.

Senator CONRAD. Anybody else want to respond on that question of what it does to producers' income? Mr. Mayer.

Mr. MAYER. Mr. Chairman, I feel that one of the things that you are going to see with a reduced payment and less incentive, is you are going to see people going out of the sheep and goat business and trying to utilize other enterprises in their operations. Now there is literally millions of acres of land out there that really is not suitable for raising cattle or raising much of anything else, except sheep or goats.

I do not have figures on a nationwide scale, but in Texas 90 percent of the sheep and goats are raised in an area of approximately 25 million acres in the western part of the State. I have a map here that I would be glad to show you, if you would like to see it. Probably half or close to half of that land, if the sheep and goat business becomes non-profit-making, you are going to see a lot of that land go idle. I think it will have a very severe effect on part of west Texas.

The incentive payments, when they go into these different communities—for example, my own community is going to be benefited to the extent of some $3 million, because I am in a very heavy sheep and goat area. When you put $3 million into a small community of about 3,000 people, think of the effect that that has, the impact that is going to have on the economy of that small, rural area.

Senator CONRAD. Let me ask this panel one other question and then turn to my colleague. What would be the effect of the administration's proposal on the price to consumers? Does anybody have a view on that? Mr. Miller.

Mr. MILLER. I would not want to hazard a guess, Mr. Chairman, as to just what percentage increase. That would be a factor of how much drop out we had in production. It would not occur in the first year, but over some time period you would definitely have decreased production.

Senator CONRAD. And therefore, increased price.

Mr. MILLER. Certainly, which substantiates your first point in your summation. I would remind the committee also that we are net importers of wool and lamb. We produce only one-third of our net consumption of wool, and we also import some 10 percent lamb. So we are not like many of the other commodities involved in farm programs. We are net importers.

Second, we have no loan program backing up any of this. What the administration is purporting to do, they are not even mentioning a loan program, nor are they mentioning a possible cost affiliated with that.

Senator CONRAD. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. I was struck by the comment of one of you, that if it is not broke, do not attempt to fix it. I think that pretty much summarizes my view. I very strongly support the efforts of Senator Daschle and Senator Conrad as a cosponsor of legislation to extend the Wool Act.

I also chair the Subcommittee on International Trade of the Committee on Finance and have spent a lot of time trying to figure out ways to head off the Australian lamb that comes into this country.

One of you also described the need for extension of the Wool Act in terms of imports, whether it is lamb or whether it is wool. It is true that we are net importers generally, but if some of you could just describe for us other countries' incentives for their producers.

I say that because many Americans do not fully understand how much we need a farm program in this country because of farm programs in other countries. Other countries have very strong price support programs—certainly in grains—and we therefore need a price support program in this country because we live in an international arena. We have to market our products. We have to fight fire with fire, in many instances.

Could you also address that need, in terms of the wool industry?

Mr. GILBERT. Senator, I would say that certainly the incentive is providing price stability on the wool end of things, and for some operators—even in Montana—the income from wool is 25 to 30 percent. So if you do away with the incentive program, that is going to adversely affect their picture of being able to continue to raise sheep and utilizing the forage available.

So then you would have reductions in sheep numbers, which again would increase our dependency on foreign wools, whether it be from Australia or other countries. And of course, the dependency on more foreign imports of lamb. So it would be adverse to the economics of this country, and also to the States that are raising sheep.

Senator **Baucus**. Somebody made some very good points with respect to the need—I think it was you, Bob—for producers, for farmers and ranchers, to diversify. I agree. Many sheep producers have other commodities, other livestock in some cases. It is true, Mr. Chairman, there is a very dramatic need in these times to diversify. That is another good reason for reauthorizing the act.

Mr. Chairman, sheep are also being used now to control noxious weeds quite effectively in some parts of our State. We have a very diverse noxious weed control program. Some approaches are better suited for some areas than others. Certainly sheep can get into some areas where chemicals, for example, are not terribly appropriate.

I just want to thank all of you very much for coming and reaffirming the need for the act. You have the very strong support, I know, of the three Senators who are here.

As one of you said, if it is not broke, do not fix it. It is not broke, it works well. We should reauthorize it with little or no change. Thank you.

Senator **Conrad**. Mr. Miller, the administration has said repeatedly, the wool program is failing because production is not increasing. Would you care to comment on that?

Mr. **Miller**. I take some exception to that. In my earlier testimony, you might recall, I mention that of the first 22 years of the program 18 of those years we had fixed payments. They were limited. The program was not allowed to function.

Subsequent to the floating of those rates, and allowing them to fluctuate in 1977, we started having increased production up to 1982. Then we had the drought in the major sheep areas, and also had a major economic recession in the ag community. But since 1986, it has been going up.

So I truly think that the program is working. The charge that we have is to provide a viable sheep and goat industry. To hang our hat totally just on an increased production, I do not think is reading the entire act.

Senator **Conrad**. The other irony of the administration's testimony was that proposal would reduce production. The complaint is that the previous program has not increased production. The testimony of the administration is that their proposal would reduce production. I do not get it. I do not get it.

Let me just say that I found these panels this morning to be exceptional. I very much appreciate the participation of all the witnesses this morning, and I want to commend the staff for putting together these panels. I want to thank the staff for a very, very good hearing this morning, and thank all of you for participating.

With that, the subcommittee will stand in adjournment.

[Whereupon, at 11:17 a.m., the subcommittee recessed, to reconvene at 2:05 p.m., Monday, March 5, 1990, in room SR–332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF JACK MEYER, JR., LEGISLATIVE CHAIRMAN, AMERICAN HONEY PRODUCERS ASSOCIATION, MADISON, SD

Mr. Chairman and members of the committee:

My name is Jack Meyer, Jr. I am a third generation beekeeper and work in a family business with my father, Jack Meyer, Sr., and my uncle, I.H. Meyer. We operate 14,000 colonies of bees for honey production in North and South Dakota. We maintain an overwintering, queen and nuclei operation in Louisiana and Mississippi.

I am a member of the American Honey Producers Association (AHPA) which is an organization of producers only and represents approximately 60 percent of the honey produced in the United States. I am currently serving as Legislative Chairman for the AHPA.

The honey industry is unique in two areas:

1. Not enough honey is produced in the United States of America to meet domestic demand. Some imports are always required.[2]
2. The dollar benefit of our industry to other agricultural commodities is far greater than the value of honey produced ($200 million to $9.3 billion added value).[3]

Five years ago I gave testimony to a similar committee concerning the pending 1985 farm bill. At that time, my industry was being faced with an onslaught of honey from foreign nations. Domestic honey had been replaced by foreign honey on the store shelves and CCC warehouses were for the first time since the 1949 farm bill taking over major amounts of honey. When work commenced on the "1985 Food Security Act", a compromise was reached between the House and Senate conferees and industry leaders to change the honey program to a "lower loan repayment rate program."

I am happy to say that this new program is working well. Domestic honey is back on the store shelves and not in government warehouses. There is a real possibility that none of the "1989" crop will be forfeited. Imports are once again as they should be, filling the shortfall between domestic production and consumption. Costs of the program have been reduced from $80.8 million in 1985 to $41.7 million in 1989. This is a 50 percent reduction.

The American Honey Producers would, therefore, like to go on record as supporting a continuation of the current Honey Support Program in the 1990 farm bill. There are, however, two changes we would like to see:

1. *That further reductions in the loan rate be stopped or better yet, loan rates be increased.*

In the last 5 years, the loan rate for honey has been reduced by 18 percent.[4] This reduction, coupled with increased costs of production, are severely impacting my industry. In many production areas the average income per colony is now below the average cost per colony.

Two bee pests, the tracheal and the varroa mites, have recently spread across the United States. These pests have added expenses in the amount of approximately $5 per colony to our already strained budget.

USDA researchers tell my industry that the "Africanized Bee" will cross the Mexican-U.S. border this year or next. Although I am confident that my industry will be able to handle the "Africanized Bee Challenge", additional expenses will be incurred.

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[2] Page 18 Honey-Background for 1990 Farm Legislation, Frederic L. Hoff and Jane K. Phillips, USDA, ERS, Commodity Economics Division.

[3] Page 11 Honey-Background for 1990 Farm Legislation.

[4] Chart of Reductions for Honey in the 1985 Food Security Act.

My industry has also assessed itself 1 cent per pound of honey for promotion and research. This assessment is about 2 percent of gross income. No other commodity has such a high assessment. It is the industry's hope that this self-help program will lead to increased consumption and higher prices for our commodity.

2. *We are also opposed to maintaining a forfeiture cap on our commodity.* (Nct to be confused with the payment cap on benefits.) The forfeiture cap is potentially detrimental to the welfare of the entire honey industry as producers with production above this cap may be forced to sell, thereby depressing the entire honey market. Also, we are the only commodity to be under such a restriction.

Thank you for your help in working to maintain a viable honey program.

[Attached table follows:]

1985 FOOD SECURITY ACT

Reductions for honey:

Year	Average loan rate	Reduction cents per pound	Additional reductions 1988 budget reconciliation
1985	65.3		
1986	64.3	.0100	
1987	62.3	.0200	.0200
1988	59.1	.0312	.0075
1989	56.36	.0296	.0050
1990	53.54	.0282	.0025

Comparison of cuts with other commodities:

	Percent
Wheat	8.67
Corn	9.24
Cotton	10.00
Rice	10.00
Honey	[1] 18.00

[1] Plus budget reconciliation cuts.

PREPARED STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Thank you for the opportunity to present the views of the American Farm Bureau Federation (AFBF) on the Rice Title of the 1990 farm bill.

AFBF has been a strong supporter of the 1985 farm bill and believes that it has been very effective in allowing agriculture to rebound from many of the economic difficulties of the 1980's. The policies adopted as the primary objectives of that legislation have worked in concert with favorable macroeconomic conditions both in the United States and in global markets in which so much of our commodity sales are dependent.

Farm Bureau had three major policy goals for the Food Security Act of 1985:

(1) Supporting farm income;
(2) Pricing U.S. agricultural commodities competitively; and
(3) Reducing levels of government owned and managed stocks.

The 1985 farm bill has been successful in meeting most of these goals. Farm income has been maintained at historically high levels due to:

(1) Record receipts from both crops and livestock;
(2) Moderate growth in production expenses;

(3) More acres now planted to program and non-program crops than in 1985 due to downward trends in acreage reduction programs (ARP);

(4) Stable land values;

(5) Increases in exports;

(6) A decline in stocks; and

(7) Generally favorable financial conditions for agricultural producers.

This has led to a greater degree of stability and optimism in agriculture today than in 1985. Thus most farmers have stayed in business and reduced the burdensome debt loads of the early and mid-80's.

By emphasizing competitiveness in the 1990 farm bill, U.S. agriculture will continue to move in the direction of expanding its present markets and opening new markets worldwide. Increasing trade is essential to the rice industry. Industry growth is dependent on liberalization of world trading practices and upon promotion of economic growth throughout the world. In order for agriculture to benefit from opportunities to expand trade, it must enhance its competitive position.

Continued improvement in net farm income and enhancing the economic opportunity for farmers should be the most important goals of the next farm legislation. The voting delegates at AFBF's 70th Annual Meeting in San Antonio, Texas addressed the basic goals and objectives of the next farm bill in adopting the following policy:

NATIONAL FARM POLICY

Improving net farm income and enhancing the economic opportunity for the farmer are Farm Bureau's most important goals.

We favor a market-oriented agriculture with supply and demand, rather than government action, ultimately determining production and price.

Subsequent to the Food Security Act of 1985, a consistent market-oriented farm program should be pursued that would:

(1) Rely less on government and more on the market;

(2) Allow farmers to take maximum advantage of market opportunities at home and abroad without government interference;

(3) Encourage production decisions based on market demand;

(4) Provide income support at a level that would not interfere with opportunity for income from the market;

(5) Encourage needed adjustments in resource use;

(6) Minimize or eliminate the impact on non-program commodities;

(7) Provide for minimal government stocks; and

(8) Be consistent with and complementary to international economic and foreign relations policies.

The voting delegates were very clear in outlining the general direction for future farm programs. The first four points all tie farm programs to market reality. U.S. farmers use about $800 billion worth of resources in their production efforts. They own resources with the intention of using them to produce products and sell those products in the marketplace, both domestic and international. All farm programs have to be consistent with that need to produce and sell to a consumer market. Adjustments in resource use are necessary to permit farmers to respond to changing circumstances in markets, in technology and in environmental goals.

Agriculture is constantly changing based on market demands and changing production technologies. Farm programs must be flexible enough to allow production agriculture to respond to changes as consumers worldwide make their voices heard in the marketplace. As part of the needed adjustments, we have supported allowing a 10 percent shift between base acres of program crops. We also support initiatives for the updating and proving of program yields. The biotechnology revolution will continue to provide new opportunities for farmers to reduce their cost of production, improve the quality of products and minimize the introduction of chemicals and pesticides into the environment.

AFBF would like to offer more detail to the committee on the provisions directly affecting rice producers.

RICE

Farm Bureau supports the Rice Title of the Food Security Act of 1985. We believe the key element of the rice program, the marketing loan, has been effective. It has helped in restoring the U.S. share of world trade for rice. We believe that competitive pricing of our products is a fundamentally sound and desirable goal in farm policy. We also believe that it should remain as one of the most important objectives of agricultural policy under the current and future farm bills. The marketing loan has assisted in making us competitive. We urge the committee to construct the 1990 Rice Title in a way that will be adaptable enough to deal with any eventuality, whether it be surplus or shortage. The only way to accomplish such flexibility is to allow producers and consumers greater freedom to respond to market signals.

TARGET PRICES

Farm Bureau supports continued use of deficiency payments as an income supplement to producers of rice. Target price must be maintained at levels that allow the program to operate effectively. Target price levels must not only encourage program participation but also allow for marketing flexibility. Any further attempts to refine the target price process will need to consider an effective level of support, competitiveness, and our ability to expand exports into an international marketplace in which other countries may engage in unfair subsidization.

LOAN RATES

Farm Bureau supports continued use of non-recourse loans. We believe that loan rates should consider: (1) market prices, (2) changes in market needs, and (3) stock levels. If there is a minimum loan rate in the next legislation, it should not interfere with market based adjustments in the world market price. We believe that the world price formula used in the 1985 farm bill has functioned in a beneficial manner. It has accurately reflected world market conditions which has kept us from accumulating large stocks of rice. This type of loan rate also signals to our international competition that we will not provide them with long-term price protection.

ACREAGE REDUCTION PROGRAMS

We support acreage reduction programs that are triggered when carryover supplies exceed workable levels. The ARP programs should be large enough to assure a reduction in carryover supplies. Increased efforts to expand market competitiveness must be assured by flexible price and income support programs resulting in ARP's used only to correct temporary imbalances.

PAYMENT LIMITATIONS

We believe that payment limitations under the commodity loan, acreage reduction and disaster programs should be eliminated. We recognize the political difficulties in eliminating payment limits. However, if a limitation must apply to cash deficiency payments, we favor no limit lower than the present $50,000 limitation. Producers eligible to receive payments in excess of $50,000 should receive CCC generic certificates not subject to limitation.

ALTERNATIVE AGRICULTURE

Farm Bureau believes that if environmental concerns impact future legislation, farm programs must allow for the use of technology and practices that both sustain and enhance productivity. Agriculture must be allowed to respond quickly and adequately to a growing demand for agricultural commodities. Demand will continue to increase as a result of growing populations and rising incomes. Agriculture has managed to preserve a comparative advantage capable of effectively competing in world markets. If agricultural commodity programs are not structured in a manner that will sustain and enhance productivity it will mean that the industry will be incapable of competing in world markets.

We also urge the committee to approach environmental issues in a manner that will be useful as a guide to development and research rather than an immediate guide to implementation. Farm Bureau members are well aware of their responsibilities as stewards of the land to minimize any adverse environmental effects. However, we also know that it is imperative that we continue to have the opportunity to produce and compete in world markets. If environmental portions of the new farm bill are so restrictive that farmers and ranchers lose the opportunity to effectively use their resources, then the farm bill will be a failure, regardless of other provisions it may contain.

We believe that our proposals will benefit the rice industry through providing producers opportunity for profit. The features outlined above continue to allow us to move toward market orientation, provide continued assistance in the form of target prices, and expand export markets. Only in this way can we maintain agriculture in a healthy and balanced condition.

We in Farm Bureau are looking to the 1990 farm bill to further improve the net farm income of our members.

PREPARATION FOR THE 1990 FARM BILL

Rice

MONDAY, MARCH 5, 1990

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:05 p.m., in room SR-332, Senate Russell Office Building, Hon. David H. Pryor (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Pryor and Cochran.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Ladies and gentlemen, good afternoon. Senator Cochran I think is on his way to the committee at this time. I would like for the record to say that I feel extremely uncomfortable even mentioning the word rice outside of his presence. So he will be here momentarily and asked that we go forward.

I will make a very short opening statement, and then we hope Senator Cochran will be here to make his opening statement, and then we will call our representative from the USDA.

Senator Cochran, how are you, sir?

Senator COCHRAN. Fine, thank you, Mr. Chairman.

Senator PRYOR. It was 5 years ago, when in this room, we held our initial hearings on the 1985 farm bill. At that time there was a great sense of urgency among the rice State members of this committee and of the Senate. Our constituents in the rice industry had witnessed a lack of competitiveness that resulted in lost market share, declining income, and increased Government stocks. It was very critical at that time that swift measures be taken to reverse that environment. Now, 5 years later, we find ourselves in another atmosphere that has not only been reversed from those years, but shows continued promise for improvement.

Since enactment of the Food Security Act of 1985, U.S. rice has increased its exports, increased its domestic and export utilization, and stocks have dropped dramatically. It is worth emphasizing that this was accomplished under the framework of the current farm bill, and there is nothing to suggest that a major departure from that law would further enhance the rice industry's economic comeback. Actually, there is quite a bit of concern that some of the change being discussed in Washington, such as a marked increase in flexibility, would actually create new problems for rice, the rice farmer, and the rice miller.

As we craft the 1990 farm bill, we must all remember the lessons we learned that influenced us to write the Food Security Act of 1985. Prior to its enactment, the rice ARP was 35 percent, and Government stocks were still growing at a rapid rate. Exports had all but ceased, and farmer income was a joke. The marketing loan helped remedy much of that, and it is vital that we keep that program as it is. While it has done much for U.S. rice, it has served as an investment, we think, in America's countryside—just ask David Hillman or our friend John Tull.

The emphasis has always been on exports, producer income, and maintenance of markets for rice, yet through the years we have seen a new concern surface, and that is, our water supply, a tremendous amount of water is needed to cultivate the rice. Rice industry officials—producers and millers—have already begun to address this concern, and if there is any way for us in Congress to help, we must share a partnership in working out this very, very grave problem for this industry.

The environment, production, and trade are each interwoven in our quest to maintain a safe food supply for domestic use, and to continue our presence in the world market. For the most part, all is well just as it is. We know what works, and that is comforting. The concern, especially with GATT and questionable flexibility proposals hanging over our head, is changing to unchartered waters.

I look forward to hearing from each of our witnesses this afternoon as we address these issues today and ultimately as we begin to mark up this particular very critical section of the 1990 farm bill.

It is my pleasure at this time to present my colleague and friend, Senator Cochran of Mississippi, who in 1985, both of us worked together very hard to inaugurate some sort of a new idea for the rice industry, and we hope that new idea has worked and that it will continue to work for the next 5 years out.

My good friend and colleague and certainly a fine and splendid friend of the rice industry, Senator Cochran of Mississippi.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. Thank you very much, Mr. Chairman.

I, too, look forward with you to hearing the testimony of our witnesses today who are here to help us understand what some of the real-life problems are that are faced out there by rice producers and how we, in writing the 1990 farm bill, can try to address some of those concerns.

I think it is clear that the 1985 farm bill has been a success for the rice industry, and I don't know of any commodity group or industry group in agriculture that would like to see us continue the 1985 program any more than this industry—and for good cause. You painted a picture of stark reality of how bad things were when we were challenged to write the 1985 bill, and with the help of many who are here in this room today, this program was developed and enacted and signed into law and has proven to have been very valuable not only for the industry but for our entire economy. It really has contributed a lot toward the improvement of the U.S. economic prospects for the future and, of course, over the past 4 years.

I have a formal statement, Mr. Chairman, which I would like to put in the record, and rather than take up time from other witnesses, I would just like to welcome them and thank them for being here to help us as we begin our work in writing the new farm bill.

Senator **Pryor**. Thank you, Senator Cochran.

Your statement will be placed at this point in the record.

[The prepared statement of Senator Cochran follows:]

Prepared Statement of Hon. Thad Cochran, a U.S. Senator From Mississippi

Mr. Chairman, I look forward to hearing the comments and testimony about the rice program as we prepare the 1990 farm legislation.

The rice industry has a significant impact on the overall well-being of the Mississippi economy. According to the 1987 Census of Agriculture, rice is produced on over 800 farms in Mississippi. In 1989, rice production totaled 13.4 million hundredweight. Estimated farm value of this production totaled almost $143 million and represents 15 percent of the revenue generated from field crops produced in Mississippi.

The success of the 1985 farm bill is clear. Net farm income has increased steadily under the 1985 act and is estimated at $48 billion in 1989. Last year, U.S. agricultural exports reached nearly $40 billion. Burdensome stock levels of most commodities, which prevailed when we wrote the 1985 legislation, have now been moved from government stocks to domestic and foreign markets.

For rice, the situation was very similar to the other major U.S. crops. The rice market was characterized by low domestic demand, declining exports, and low farm prices. In the 4 years preceding the 1985 bill, U.S. rice off-take averaged 126 million hundredweight. In the 4 years since the 1985 bill, however, off-take increased nearly 30 percent to 162 million hundredweight.

Competitively priced U.S. rice has allowed the industry to recapture a significant share of world trade. American rice exports are expected to reach 82 million hundredweight or 53 percent of production in the 1989/1990 marketing year. This represents a 19 percent share of the world rice trade.

The rice marketing loan program has proven very successful over the life of the 1985 farm bill. The farm value of rice has increased each year under the 1985 act and is expected to total nearly $1.1 billion in the 1989/1990 marketing year. Additionally, average rice program expenditures account for only 6 percent of the total government outlays on all commodity programs.

Given the overwhelming success of the current rice program, it seems the continuation of the major provisions of this program should be appropriate in the 1990 farm legislation. It is my desire that we work together as a committee to develop a rice program which will build on the success of the 1985 farm bill.

Senator **Pryor**. Before you entered, Senator Cochran, I just made the informal observation that I hated even to mention the word rice without your being here and being present, as you have had such an integral part to play in the development of the rice program.

Senator **Cochran**. You're very kind, Mr. Chairman. Thank you.

Senator **Pryor**. We will call our first witness this afternoon, Dr. Bruce Gardner, who is Assistant Secretary for Economics.

Dr. Gardner, let's see, the other day you were over here and last week you were here. You choose any place you would like. We welcome you once again.

Senator **Cochran**. He might choose to go back to the Department.

Senator **Pryor**. Yes. [Laughter.]

I think maybe he is going to be specific with us. I hope he will be.

Dr. Gardner, do you have an opening statement?

Mr. **Gardner**. I do, and I would like to put it in the record if I may and just briefly summarize my remarks, Mr. Chairman.

Senator **Pryor**. That suits us fine.

STATEMENT OF BRUCE L. GARDNER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC; ACCOMPANIED BY GENE ROSERA, AGRICULTURAL ECONOMIST, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Mr. **Gardner**. Well, Mr. Chairman, Senator Cochran, I appreciate the opportunity to appear today to discuss rice issues in the context of the 1990 farm bill.

U.S. RICE IN THE WORLD MARKET

The facts about the rice market most important to keep in mind, I think, in developing legislation are the following:

First, the market for U.S. rice is a global market, and we need to export about half of our production every year.

Second, rice is a staple food in much of the world and many countries which import or have imported rice have protected their domestic markets in attempts to become self-sufficient.

Third, the rice market is a thin market. The U.S. accounts for only about 2 percent of world production, but nonetheless we are the second largest exporter, following Thailand.

And finally, the rice market is expanding. U.S. domestic food use of rice has increased at about a 5 percent annual rate in the 1980's and world rice trade has increased at something like a 2 percent annual rate since 1970. At the same time, world rice yields have been growing at a little bit slower pace in recent years and research and experimental efforts don't seem to be generating quite the productivity breakthroughs as has been the case in some other commodities in the last few years.

FARM BILL PROPOSAL

Turning to our 1990 farm bill proposals, we agree that the 1985 act has been a good framework for rice policy and commodity policy in general. But we do propose some changes. The changes we propose are intended to make sure that we maintain the competitiveness of U.S. rice to permit both our farmers and our markets to be as flexible in response to market signals as possible and to provide a framework of support for the industry that will be both fair and consistent across commodities and the economy as a whole.

THREE MAIN ASPECTS OF OUR PROPOSAL

Now let me just outline three main aspects of our proposal: acreage flexibility, the acreage reduction programs, and the CCC loan program. And I will spend most of the time on the flexibility proposal.

FLEXIBILITY PROPOSAL

This proposal has raised questions, and several modifications of it have been suggested. But I still believe that the normal crop acreage or NCA concept, as outlined in our Green Book, provides the best approach to solving the problems that have arisen under current programs.

Now, what problems? Current law is already flexible to some extent, but it still causes the farmer to make too many acreage decisions based on target prices and program provisions rather than market conditions. This is true even of the 0-25 program, where soybeans could be planted, for example, on rice base: The substitution is permitted, but the farmer gives up the target price on rice in return for the market price of the beans.

Our normal crop acreage concept permits substitution among program crops based on market conditions. Several groups and individuals have said that they like the principle of being able to switch crops on NCA acreage but worry about massive shifts in crop acreage that would destabilize prices.

To forestall such shifts, some have suggested 10 or 20 percent limits on changes in program crop acreages so that a producer, for example, who grew 100 acres of wheat one year could grow, at most, 120 acres the next and still receive program benefits.

I believe it would be a mistake to restrict flexibility in this way. It is true that a 10 or 20 percent shift is the most we are likely to need on an aggregate basis for the country as a whole. But many individual producers would want to make more substantial adjustments, perhaps switching completely from barley to oats one year, say, or from corn to soybeans, or other major changes to establish a new crop rotation.

Why place financial obstacles in the way of farmers who want to try out something new and see a good market opportunity? The fear that farmers will all rush lemminglike to one side of the boat has no factual basis, and I think is a serious underestimation of both farmers' intelligence and market responsiveness.

As soon as any sizable fraction of farmers take the first step toward, if you will, moving to the other side of the boat through planting intentions or movement toward unusual seed or machinery purchases, the cash and futures markets are going to reflect this changing balance. This is going to give all participants a chance to rethink their plans within a day or a few days or a few weeks.

We see this sort of continual planning and readjustment throughout the preplanting season in all crops, including many nonprogram crops which do not have any acreage or price support restrictions.

Now, no doubt these planting decisions are difficult, and farmers do make mistakes. But if overproduction does develop of some commodity, our proposal permits the Secretary to pull a commodity out of the NCA, and imposing a binding acreage reduction program, as in current law.

But in general, the idea that the Government knows better than market participants and should try to rein farmers in through prior restrictions and regulations is dubious both in principle and in practice. And in fact, I think it could be argued that most of the destabilizing decisions in the 1980's were made by Government and not by farmers.

So, let's not limit flexibility on the grounds that farmers will mess things up if allowed to follow their interests as they see them.

BASE SUBSTITUTION PROPOSAL

Finally, I would like to mention a proposal that looks somewhat like ours, so-called base substitution, in which a producer could build base by up to 10 percent along with acreage shifts. This looks like even more flexibility than we are proposing, but it is not really, because these shifts would respond to target prices and not to market prices.

This distinction—that is, between acreage flexibility and response to market prices as opposed to target prices—is especially important for rice. In the 1980's, and we would expect something like the same in the 1990's under frozen target prices, the target price of rice has exceeded the market price by about 60 percent on average. The current holders of rice base have little to fear from new production in search of $6 or $7 rice prices in the marketplace, but the situation would be different if expanded rice production could bring a target price of $10 or $11. The latter is what base substitution would encourage.

LOAN RATES

With respect to loan rates—and I will try to be very brief on this—we propose changing provisions for both cotton and rice to the moving average with a 20 percent reduction option that is now used for the grains. But we would retain the marketing loan provision in rice as in cotton.

The reason that we would like to make these changes is that current law has not always resulted in the farm price following the world price so as to maintain competitiveness in the way that the marketing loan concept envisaged. We believe that our proposals will better and more straightforwardly achieve that purpose; that is, of maintaining competitiveness.

That concludes my summary, and I would be pleased to take your questions.

[The prepared statement and attachments of Mr. Gardner follow:]

STATEMENT OF
BRUCE GARDNER
ASSISTANT SECRETARY FOR ECONOMICS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SENATE AGRICULTURE SUBCOMMITTEE ON
AGRICULTURAL, PRODUCTION, AND STABILIZATION OF PRICES
MARCH 5, 1990

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to discuss rice issues in the context of the 1990 farm bill. My comments today concern the U.S. role in the world rice market, the performance of the U.S. rice industry under current legislation, and our "Green Book" proposals for rice in the 1990 Farm Bill.

U.S. Rice in the World Market

Rice is the major food grain in much of the world. It is generally produced within the consuming country, with less than 5 percent entering world trade. This thinness in the world rice market creates volatility. The list of top importers and their import volumes varies from year to year as their production, economic situations, and food policies fluctuate.

The United States accounts for about 2 percent of world rice production, but we are the second largest exporter following Thailand. Pakistan, Burma, Australia, China, the EC, and recently Vietnam, are also major rice exporters. In addition, the EC is one of our customers because they export and import different types of rice.

Total U.S. rice use is now about evenly divided between exports and domestic use. During the 1960's and 1970's, U.S. exports were considerably above domestic use but in recent years domestic use has often surpassed exports. Domestic per capita rice consumption has doubled in the past 10 years. Increases in the Asian and Hispanic segments of the population, a shift in American diets towards more grain-based foods, and introduction of new products, such as flavored package mixes, cereals, and snack foods, have fueled the growth.

World rice trade has virtually doubled since the early 1960's and has increased by over 50 percent since 1970. In the 1960's and early 1970's, rice trade was primarily a function of production shortfalls in Asian countries with high per capita consumption. Asia accounted for about 60 percent of world rice imports in the 1960's and about half in the 1970's. However, Asian imports declined in the mid-1980's. Successful adoption of high yielding varieties of rice combined with technological and input assistance allowed Asia to approach self-sufficiency in rice. This contributed to a leveling off of world rice trade in the mid-1980's.

Following rapid export growth in the 1970's, U.S. rice exports fell about a third during the 1980's and the U.S. share of world trade declined from 23 percent to 15 percent. The leveling off of world trade during the 1980's intensified competition among rice exporters. Thailand emerged as the world's major exporter of rice in the 1980's. Increasing production in Thailand, a widening gap between U.S. and Thai prices (partly reflecting U.S. loan rates), and a strengthening U.S. dollar reduced the competitiveness of the United States in world markets. U.S. rice exports fell nearly 40 percent between 1980 and 1985, while exports from Thailand climbed by an equal percentage.

U.S. Rice Under Current Legislation

A main objective of the Food Security Act of 1985 (the 1985 Act) was to increase the global competitiveness of U.S. agriculture. Implementation of the rice marketing loan in April 1986 immediately and dramatically lowered U.S. prices to near world levels. Exports increased sharply but still have not matched the 1980 peak. Since 1985/86, rice carryover stocks have fallen from 77 million cwt to an estimated 19 million cwt this year. However, much of the decline has been caused by acreage reduction programs, which averaged 30 percent annually for the 1986-89 crops.

The late 1980's have been characterized by intense competition in world rice markets, which the United States has met with export assistance programs and the marketing loan program. Export assistance programs, largely PL 480 and guaranteed credit programs, now account for about 40-50 percent of U.S. rice exports, compared with 25-30 percent 10 years ago. Despite these measures, our major competitor, Thailand, has continued to increase it's market share in the late 1980's. This year, Thailand is expected to account for 36 percent of global rice trade while the U.S. share will be 19 percent. During the 1960's and 1970's, the U.S. and Thai shares of world rice trade were about equal.

The late 1980's have also seen the expansion of markets for lower quality long grain rice. The rise in world trade during 1989 has been attributable in large part to growth in this market, with purchases by China, the USSR, and the Philippines. Thailand, Pakistan, and Vietnam are the primary competitors in the lower quality long grain market. While the United

States does not compete in this market, importers of this rice would prefer higher quality long grain rice, if it could be priced competitively.

The Uruguay Round of GATT negotiations provides an important opportunity for the U.S. rice industry. Foreign rice policies, particularly import access barriers in Japan, have limited world trade in rice. Multilateral negotiations that reduce trade distorting subsidies and open markets such as Japan would result in higher world rice prices and expanded world trade.

In sum, the 1985 Act has reduced surpluses and helped to make U.S. rice competitive in the world market, but at the cost of large government outlays and large idled acreage. Producers have been required to idle nearly a third of their acreage, and both program assistance and export assistance have been record high. Outlays for rice price and income support programs exceeded $900 million during FY 1986 and FY 1987 and have averaged $650 million during FY 1986-89. Outlays are projected at $616 million for FY 1990 and $673 million for FY 1991.

Farm Bill Proposal

While we believe much of the basic structure of the program for rice under the 1985 Act is sound, we propose several changes to make the rice program even more market oriented and flexible for producers. We propose revisions to determination of the loan rate and also to treatment of base acreage that could be considered as part of a package of program changes that would also meet the goals of the President's budget. We will work with the

Congress to fashion a rice program consistent with the need to achieve the savings required to meet the legislatively required budget deficit targets.

Loan Rate. We propose using for rice the loan rate formula now used for other grains. The basic loan rate would be set at 75-85 percent of past market prices with discretionary authority to reduce the loan rate an additional 20 percent if necessary to make U.S. rice competitive in world markets. Any additional reduction would be compensated by increasing the deficiency payment rate if market prices warrant. The basic loan rate could not, however, be reduced by more than 5 percent from the preceding year. This proposal would do away with the minimum loan rate of $6.50 per cwt. The marketing loan program would be retained, allowing producers to repay loans at the world price whenever the loan rate exceeded the world price. The current loan period of 9 months would continue, with Secretarial discretion for loan extensions if market conditions warrant.

Since the inception of the marketing loan program, the world price, which is the loan repayment rate, has been well below the minimum loan rate most of the time. The results have been that nearly all rice production has been cycled through the loan program, some 95 percent for the 1986-1989 crops. Often the world price has been well below the minimum loan rate even when the domestic price was much above it. Thus, there has been incentive for producers to use the loan program strictly to increase program benefits. This has contributed to increased program outlays which have ranged from $600 million to near $1 billion in recent years, compared with an average of about $50 million during the 1970's. The ability to reduce loan rates, while protecting farm income through so-called Findley payments, has worked well for other grains and would result in less production being cycled through the loan program.

Deficiency Payments. Deficiency payments would be based on marketing year rice prices received by farmers. Advance payments would continue, and there would be a payment based on the difference between the target price and the higher of the 5-month average farm price or the basic loan rate. If the basic support rate was reduced to make U.S. rice more competitive, there would be a final payment, made at the 5-month point, based on the difference between the expected season-average farm price and the basic loan rate. The expected season-average price would be determined by using the actual prices for the first 5 months and for the remainder of the marketing year the historical relationship between prices during the first 5 months and prices during the remaining 7 months would be used.

These proposals would simplify and make consistent the calculation of rice deficiency payments with payments for other grains.

Acreage reduction program. Rice would be one of the crops that would participate in the USDA's broad flexibility proposal described in our "Green Book." Rice base acreage would be part of the farm's Normal Crop Acreage (NCA). A participating producer could raise any NCA crop (wheat, rice, feed grains, upland cotton, ELS cotton, soybeans, sunflowers, and rapeseed, including canola) as well as conserving crops which are not harvested on rice base acres and still receive rice deficiency payments and maintain rice base acreage. Likewise, rice could be grown on other NCA crop base acreages and the producer would receive deficiency payments for those crops. A producer who grew rice on cotton base, for example, would do so based on the market price of rice compared with cotton. The only rice program benefit to a producer who expanded production beyond the farm's rice payment base would be the loan program.

Under acreage reduction programs the producer would be required to idle a percentage, not to exceed 35 percent, of the rice acreage base. However, the producer could grow rice and conserving, industrial, and experimental crops on the acreage to be idled (ACR). For each acre of rice planted and harvested on the rice ACR the producer would forego an acre of deficiency payments. For each acre of conserving, industrial, and experimental crops planted and harvested, the producer would forego a dollar value of deficiency payments determined by prorating across program crops. The acreage reduction program should accomplish the goal of a carryover stock-to-use ratio of 20 percent.

This proposal would result in farmers basing planting decisions on relative market prices, not on target prices. Producers would be free to seek their best income opportunity among NCA crops while retaining target price protection. However, this program is not one of "decoupled" payments since a producer's payments under our proposal vary with the producer's output decisions. Payments must be given up in the event the producer plants on idled acres, and both payments and base acreage for future payments are foregone if a producer plants non-program crops or harvests conserving crops for hay on NCA crop base. Moreover, payments vary with market prices. Such production-and price-linked payments should not be confused with the lump-sum welfare-like payments of some earlier proposals.

Our flexibility proposal would be beneficial generally by encouraging certain crop rotations that have desirable environmental or other features. For example, southern States would be helped to control their red rice problem. Red rice, a weed that reduces yield and quality, can only be controlled through crop rotation, since herbicides kill both the rice and red rice. Our proposal will provide producers more flexibility to rotate crops without losing rice payments and rice base acreage.

Target price, base acreage, and program payment yield. We propose to work with the Congress to develop a rice program that will serve growers' needs and aid in deficit reduction. Target price or payment base changes may be required.

A farm's base acreage would be the average of the acreage planted or considered planted to rice during the 5 years ending with the year that is 2 years prior to the year for which the base is being determined. Zero would be used for each year when planted and considered planted acreage is not established for the farm. Acreage considered planted to rice for a program participant would include acreage planted to any NCA crops planted on rice base and the prorated share of unharvested conserving crops. Thus, a participating producer may plant more acres of rice than the farm's rice base acreage, but the producer cannot build rice base and still be a participant in the program.

These changes would provide USDA the needed time to compute bases each year and inform farmers in a timely fashion. Including zero planted and considered planted acreage would eliminate the possibility for a farmer who has never grown rice to build a base in two years, as is now the case.

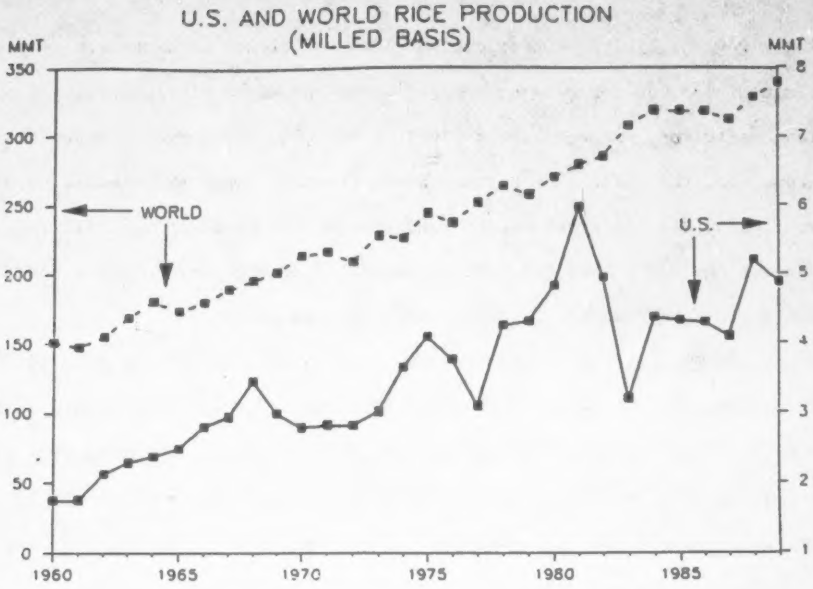
We believe that program payment yields should be set no higher than the 1990 program yields, which are the average of the 1981-1985 farm program payment yields, excluding the high and the low years.

Payment Limits. Under current law, deficiency payments are subject to a limit of $50,000 per person, and deficiency payments plus marketing loan and loan deficiency payments are subject to $250,000 per person. Under our proposals, the deficiency payment based on the 5-month price would be subject to the $50,000 limit per person, and the payment based on the difference between the basic loan rate and the expected season-average price would be subject to the combined $250,000 limit per person.

CCC Resale Price. The CCC now cannot sell rice at less than 105 percent of the loan rate in effect, plus carrying charges. We propose establishing the CCC resale price of commodities acquired under price support programs, including rice, at 110 percent of the lower of the loan rate or the loan repayment rate which is in effect. This proposal would standardize CCC resale prices across commodities.

In conclusion, the U.S. rice market is closer to supply/demand balance than in most recent years. However, experience tells us that supply and demand conditions change quickly from year to year. The United States could produce rice in excess of this season's level of total use. The American rice industry should have the flexibility to respond quickly and automatically to changing world markets and to grow as much rice as the market will take. That will require two things: farmers must be free to plant in response to market prices and U.S. rice must be fully price competitive in the world market. Our proposals would help accomplish these goals.

That concludes my statement. I will do my best to answer any questions you may have.


U.S. AND WORLD RICE PRODUCTION
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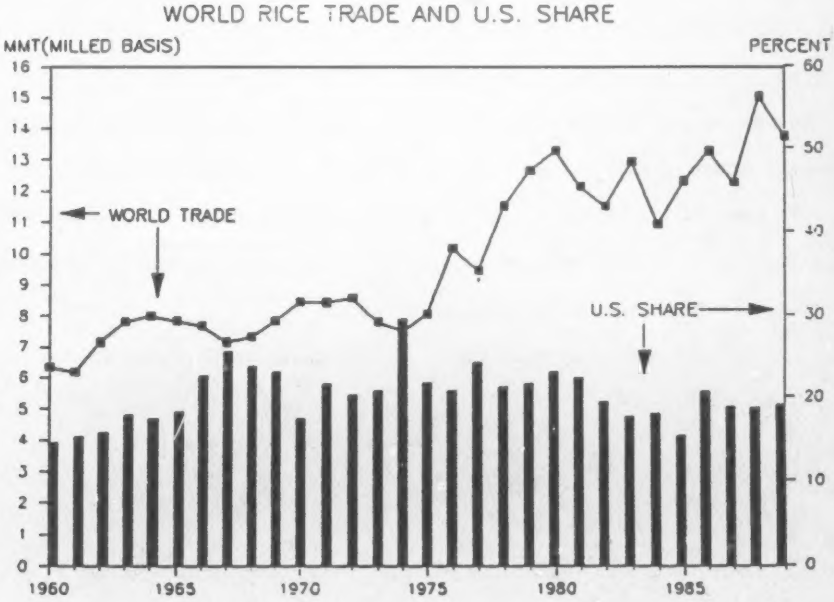
WORLD RICE TRADE AND U.S. SHARE
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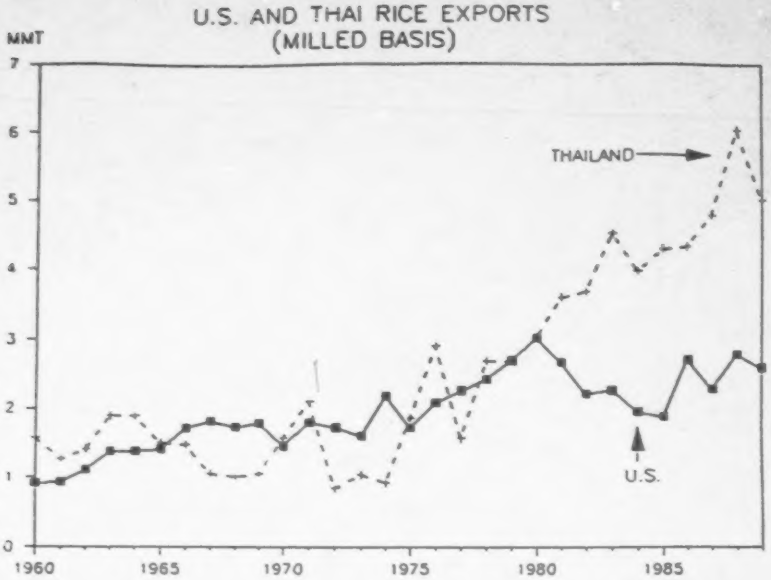
U.S. AND THAI RICE EXPORTS
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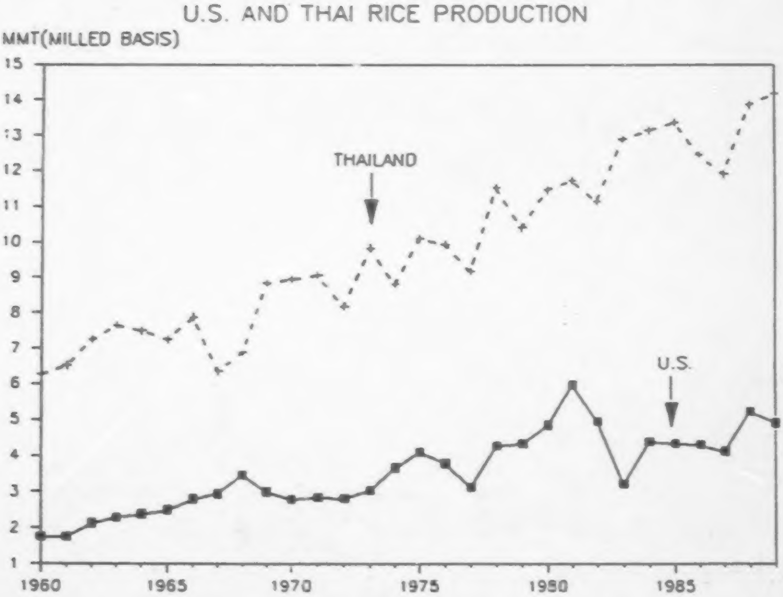
U.S. AND THAI RICE PRODUCTION
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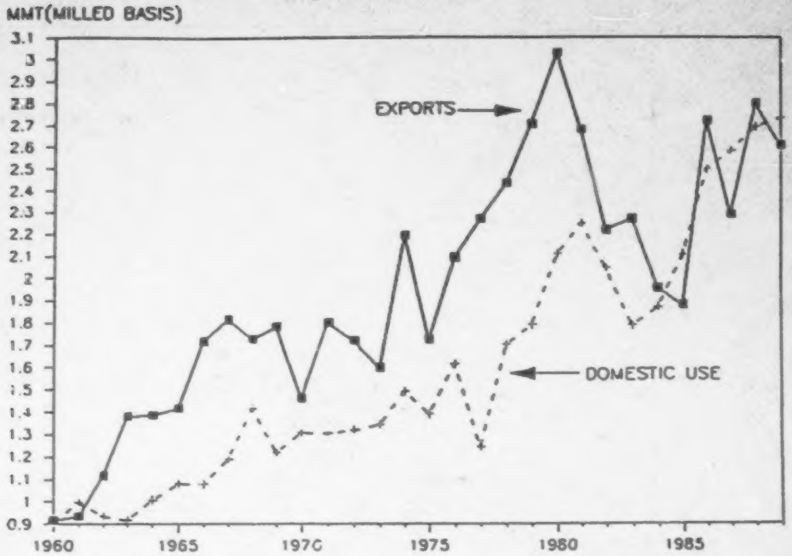
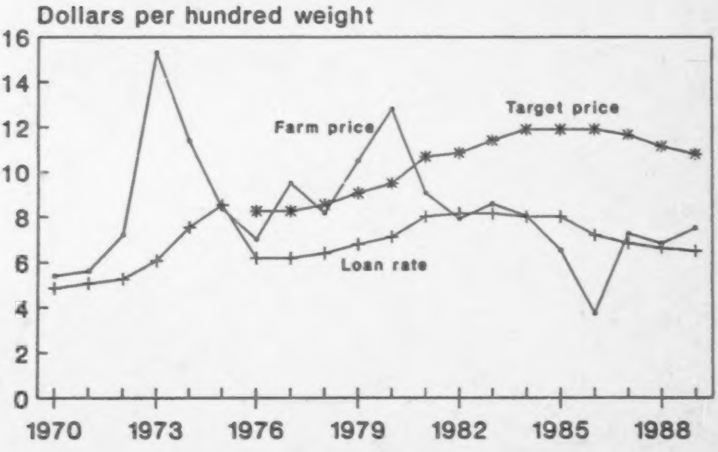
U.S.

U.S. RICE USE



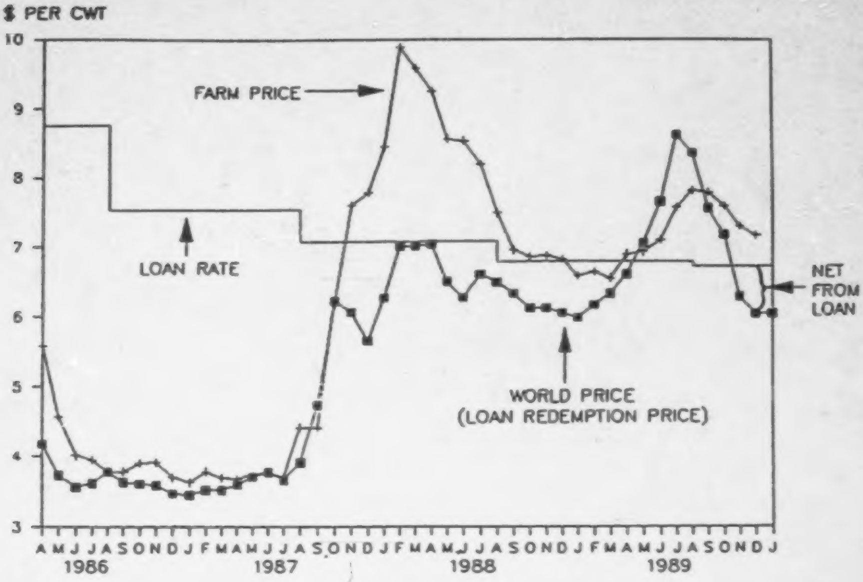
Rice: Farm price, target price, and loan rate, 1970/71-1989/90



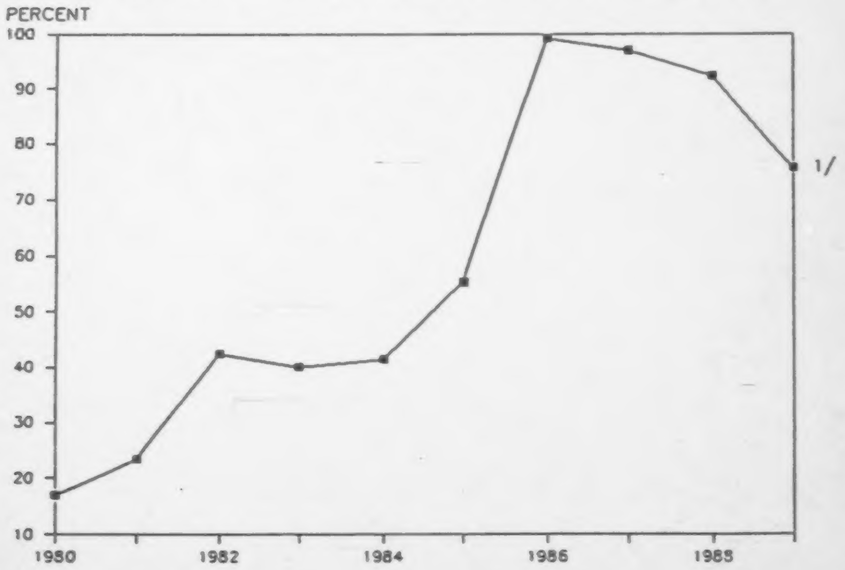
Farm price —•—	5.41	15.3	7.02	10.5	7.91	6.53	6.83
Loan rate —+—	4.86	6.07	6.19	6.79	8.14	8	6.63
Target price —✳—			8.25	9.05	10.85	11.9	11.15

Marketing year beginning Aug. 1

FARM RICE PRICES AND LOAN RATES, LONG GRAIN

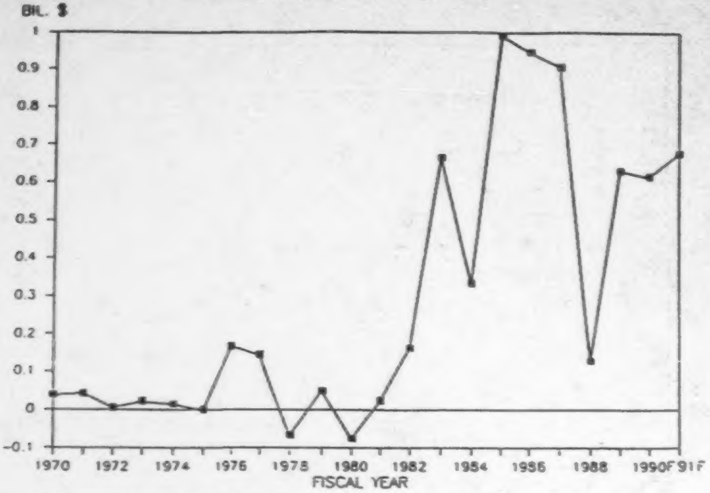


PERCENT OF U.S. RICE PRODUCTION PLACED UNDER LOAN



1/ 1989 CROP PLACED UNDER LOAN AS OF FEB. 14, 1990.

RICE PROGRAM OUTLAYS 1/



1/ NEGATIVE OUTLAYS GENERALLY REFLECT REPAYMENT OF LOANS TAKEN OUT IN PRIOR YEARS.

U.S. rice exports by export program

Fiscal year	PL 480	Section 416	CCC credit programs 1/	CCC African relief exports	EEP 2/	Export programs total	Exports outside specified export programs	Total U.S. rice exports	Export programs as a share of total exports
	1,000 metric tons								Percent
1975	747	0	48	0	0	795	1,419	2,217	36
1976	509	0	101	0	0	610	1,340	1,953	31
1977	691	0	15	0	0	705	1,614	2,317	30
1978	530	0	50	0	0	580	1,696	2,276	25
1979	486	0	42	0	0	528	1,868	2,396	22
1980	540	0	168	0	0	708	2,247	2,955	24
1981	360	0	452	0	0	812	2,360	3,172	26
1982	374	0	14	0	0	388	2,523	2,911	13
1983	475	0	328	0	0	803	1,473	2,276	35
1984	464	0	571	49	0	1,084	1,209	2,293	47
1985	577	0	359	3/ 180	0	3/ 1,116	3/ 856	1,972	3/ 56
1986	313	0	477	0	23	813	1,569	2,382	34
1987 4/	426	60	636	0	28	1,150	1,304	2,454	47
1988 4/	368	22	443	0	120	953	1,220	2,173	44

1/ Quantities and values shown are based on reports supplied by the export trade and may not completely reflect exports made under these programs. 2/ Unofficial estimate compiled from press releases. 3/ Estimated. 4/ Preliminary.

Sources: Agricultural Stabilization and Conservation Service, and Foreign Agricultural Service, USDA. Table provided by Mark Smith, ERS-CED, 786-1822.

Senator PRYOR. Dr. Gardner, thank you.

Let me ask a question relative to the flexibility that you have mentioned in the proposed changes which would mean potential acreage shifts out there in the real world. This would result from implementation of a flexibility-type program based upon the normal crop acreage. Is this correct?

Mr. GARDNER. Yes.

Senator PRYOR. Now, what would be the impact of farm income? Let's just talk about farm income. What would be the impact of these shifts?

Mr. GARDNER. Are you talking about rice or overall?

Senator PRYOR. No, I am talking about rice at this time.

Mr. GARDNER. Rice. I would say in rice, first of all, the sort of direction we would expect most likely in rice is that you would see slightly less acreage in rice. That would mean we would get a little bit of strengthening in rice prices.

However, that is not going to have much effect on farm income because the target price stays constant so that payments would go down. It's almost an offset. There would perhaps be some slight increase in farm income, but I would say it is essentially a zero effect on farm income.

Senator PRYOR. Well, why if there's zero effect or a decrease in farm income, why would we attempt to make a change like this?

Mr. GARDNER. Well, I didn't say there would be a decrease in farm income. There would be an increase in the market price, and of course any nonparticipants in the rice program would be better off because of that. Participants in the rice program are going to see their payments go down but their market receipts go up. So it would be essentially a wash.

Senator PRYOR. It seems like you are inaugurating sort of a new principle here just to get a wash out there, and I don't know why we would make that change at this time.

Mr. GARDNER. Well, I think the reason is, the reason for having flexibility again is not to achieve results in a particular year—and what I just told you is sort of a projection for 1991, say, if we implemented that program—but the reason for having flexibility is if over the course of the next farm bill market conditions change, we will have regulations and rules in place by which farmers can respond to unfolding conditions as they occur.

Senator PRYOR. OK. The second question I have: The two or three changes you are proposing in the rice section of the 1985 farm bill and the 1990 farm bill, these decisions in USDA, are they driven by the budget or are they driven by policy?

Mr. GARDNER. I would say they are driven by policy. That is, they really, in the search for marginal improvements—and again I would say these aren't major changes from what we have been doing already in the 1985 act—but for some marginal improvements in our ability to allocate our cropland to the commodities that the market is calling for. And I would call that an allocative efficiency gain for the economy. I would call that a policy change.

Also, the other aspect is flexibility too, in the market pricing, to make sure that our marketing loan program works, that we can market rice at the world price, that we don't artificially support the price in the United States at above the market price and restrict our exports.

Senator **Pryor**. All right. Discussing artificial supports—and you just used that word—do the benefits, let's say, to the rice producer out there, the rice miller, the rice industry, do they have to be delinked from actual production in order to make the normal crop acreage flexibility concept meet budget requirements? Do you have to delink those?

Mr. **Gardner**. No, you don't.

Senator **Pryor**. I think you called it delinking. I think others say decoupling. I think it's the same.

Mr. **Gardner**. Well, I haven't used either term today, and I wouldn't call this proposal delinking or decoupling, for two reasons: first, under delinking or decoupling, the producers' payments do not vary depending on what that producer does. That is not the case in our program. If, for example, the producer chooses the option to plant on the ACR, the idle acreage under the annual programs, the producer has to give up an acre of deficiency payments for every acre that is planted. So that payments do depend on plantings.

Even more, if a producer chooses to grow nonprogram crops on the NCA, the producer not only loses current-year payments, the producer loses base. And so this is very far from delinking. There is a substantial effect on the producer's payment depending on what that producer does.

Senator **Pryor**. But as I understand, if that producer decides to overplant his base, he still gets the same payment. Is that correct?

Mr. **Gardner**. It depends what the producer does in overplanting the base. We have the NCA crops, which is a limited set of crops where we have the kind of flexibility such that the producer would not lose payments. I would call it a limited flexibility in that sense.

Senator **Pryor**. You get into the issue then of cross compliance in here.

Mr. **Gardner**. Yes.

Senator **Pryor**. And how does that impact the rice producer?

Mr. **Gardner**. Well, now, in cross compliance, the producer that overplanted the base in one crop wouldn't be eligible for payments on other crops.

Senator **Pryor**. Let me ask about this. I know about 3 weeks ago Secretary Yeutter came with the now-famous or infamous Green Book. This is not really an agriculture bill. We don't have an agriculture bill by the administration before us; we have the Green Book, which is, I guess I would say, concepts.

Now, in that particular book, it seemed that the administration somewhat danced around the issue, to a degree, of target prices. What exactly is the Department's position on target prices in the rice program? What is the position?

Mr. **Gardner**. The position on the rice program is the same as the position for the other target price commodities. We have a budgetary target that we think should be met. But we don't have a specific recipe for meeting that budgetary target, and we don't want to at this stage get into the balancing of different commodity interests or other things like that.

Senator **Pryor**. Please answer my question on target prices. What do you propose to do on target prices in the rice program?

Mr. **Gardner**. We propose to work with you and jointly determine what the appropriate target price for rice would be.

Senator **Pryor**. No, I want to know what the administration's position is. We are getting to that time now, it's almost mid-March, and we need to know that position.

Mr. **Gardner**. As I say, we would be very pleased to develop that with you. But I don't have a specific number today.

Senator **Pryor**. All right. Let's see if we can go through the back door on that question. What did you assume in your baseline projections?

Mr. **Gardner**. We assumed frozen target prices.

Senator **Pryor**. No increases?

Mr. **Gardner**. They would stay, in the case of rice, at the $10.71 level.

Senator **Pryor**. OK. Now, what about OMB? You know, I don't mind USDA, and I don't mind the Senate Agriculture Committee talking about some of the policy issues of agriculture. It does concern me when OMB attempts to set agriculture policy. They are dollars-and-cents people, as far as I am concerned; they are not policy setters.

I want to know the feeling of USDA on the OMB's idea of having a means test to determine eligibility for program benefits. This was discussed last week in the cotton title hearing. I think you were one of our witnesses.

Where do you stand on the means test that OMB is proposing, as representing the U.S. Department of Agriculture this afternoon?

Mr. **Gardner**. Well, the way I would put it is that——

Senator **Pryor**. If I am putting you between a rock and a hard place, that is exactly what I am trying to do, sir. [Laughter.]

Mr. **Gardner**. Well, I am pretty firmly wedged there at the moment. [Laughter.]

But I will tell you that the notion about the means test, I think, in principle there are things to be said for it. It isn't a Green Book proposal.

Senator **Pryor**. No, I wish it were in the Green Book because that came from USDA. It's the Blue Book; that's OMB.

Mr. **Gardner**. Right. And in the Blue Book it isn't stated as the administration's position, it's stated as an option, which it is, an option. And that's something you should consider with other options.

But it's not in the Green Book; it's not what we have proposed. Why we didn't propose it, I suppose, is that after looking at all the options we thought what we did propose was, on net, preferable for, among other reasons, just the practical reasons: that a means-tested approach is a very substantial departure from what we're doing.

Senator **Pryor**. And you are not supporting this?

Mr. **Gardner**. I am saying it's an option that does not conflict with the overall administration's views on policy matters, but it's not our Green Book proposal.

Senator **Pryor**. Senator Cochran, I think I will yield to you at this point. I think I have exhausted my time here. [Laughter.]

Senator **Cochran**. Mr. Chairman, thank you very much.

As I understand the testimony, Dr. Gardner, the administration is proposing, in effect, that we continue the marketing loan program for rice. Is that correct?

Mr. **Gardner**. Yes.

Senator **Cochran**. Let me ask you this question.

I am glad to hear that because I think we all agree that it has been a program that has worked well in the rice industry.

There are some questions that I have about some of the specific decisions that are made at the Department in administering the program. For example, in the weekly world market price mechanism, where you assign a value to rice, is there a premium factor for U.S. quality that is included in that mechanism? And if there is, why is that?

Mr. **Gardner**. Now, we have changed the way we look at the world market over time and tried to tune it more precisely to what we could export rice for. It formerly was based essentially on the Thai price. Now I believe we have made some adjustments that would go some way toward what you are asking for.

But if you want details, I would have to call in someone else.

Senator **Cochran**. Well, could you just give us that for the record then, an answer to that question for the record?

Mr. **Gardner**. Yes. There may be a quick answer. We could ask Gene Rosera from ASCS.

Senator **Cochran**. All right. Fine.

Could you identify yourself?

Mr. **Rosera**. I am Gene Rosera. I work with ASCS. I am involved with the weekly calculation of the price.

Senator **Cochran**. The question was whether there is an assignment of the premium.

Senator **Pryor**. Can you come up to the table and have a seat?

Senator **Cochran**. Whether there is an assignment as a factor for U.S. quality in the calculation of the world market price.

Mr. **Rosera**. Senator, right presently there is no assignment of a factor or an adjustment for quality. But if I may clarify, we do calculate the world price on a standard quality. We do consider—so that we are consistent week to week with the calculation—we calculate it to the same quality every week. We don't calculate it as a high-quality world price one week and a low-quality world price the next.

Senator **Cochran**. OK.

Do you take into consideration transactions in terms of the types of and grades of rice; for example, parboiled, is there a certain determination each week to include actual transaction values for types of rice?

Mr. **Rosera**. Yes, Senator, we do. We have been very consistent in not using nominal or price quotes. We have always used only transaction prices.

Senator **Cochran**. In connection with the proposal that the administration is making about the continuation of the marketing loan, I am curious as to why the proposal includes a Findley adjustment for the rice loan when the Department has authority under the current law to establish a competitive adjusted world price mechanism.

Mr. **Gardner**. Well, the thought is that the Findley approach works, it seems, better and more predictably than we have been able to make the rice provisions work, similarly with cotton, in the past. So we feel that the 20 percent adjustment kind of approach under the Findley is a more proven method that we would like to use here too.

Senator **Cochran**. Why do you think it's necessary to change the loan formula or eliminate the minimum when rice has a marketing loan designed to make it competitive?

Mr. **Gardner**. Well, of course, if we could be sure that the market pricing would always permit us to sell, even when the world price was below the loan, it wouldn't be necessary. But there is the thought that sometimes the loan hinders our ability to market rice.

Senator **Cochran**. When you look at the proposal from a dollars-and-cents standpoint, the administration is proposing that we continue the marketing loan program, and you responded to the chairman by saying that the assumption is that target prices would be at the same level they are now, for the purpose of establishing the costs of the program, projected costs.

What do you see the rice program costing in the out years under a 1990 farm bill that has frozen target prices and a marketing loan program? Do you have those numbers?

Mr. **Gardner**. Well, we have some estimates. Again, this isn't the administration's proposal now. We have a baseline budget.

Senator **Cochran**. Right. Yes.

Mr. **Gardner**. It has frozen target prices in it.

Senator **Cochran**. I understand that. I am not going to try to do you like the chairman did and make you agree to something you don't want to agree to. [Laughter.]

Senator **Pryor**. Now, you know I wouldn't do that.

Senator **Cochran**. He didn't mean to do it that way. [Laughter.]

Mr. **Gardner**. No.

Senator **Cochran**. He wasn't intentionally trying to get you. [Laughter.]

Senator **Pryor**. Yes, I was. [Laughter.]

Mr. **Gardner**. Well, I don't know if I have particular numbers on this. But we would expect the cost of the program to be similar to what it cost in the 1985 act under a baseline.

Senator **Cochran**. It was about 6 percent of overall commodity costs, I think. I saw that number a while ago. Is that it? We had rice program expenditures under the 1985 act that overall accounted for about 6 percent of the total Government outlays for all commodity programs. So are you looking for a rice program that costs about the same in terms of overall commodity program costs?

Mr. **Gardner**. Yes. It would be about the same.

Senator **Cochran**. Yes.

Mr. **Gardner**. And that is on the notion of, say, $600 million in rice payments compared to a $10 billion overall. It would be similar.

Senator **Cochran**. I believe it's fair to say that the value on the farm of the rice crops have continued to improve under the 1985 bill. Is that attributable to better yields, on-farm efficiency, direct Government payments, or what?

Mr. **Gardner**. Well, it's a combination of things, but it is more output. And, of course, with the target price protection, even though the target prices have come down some, we have still had pretty good protection on the price side. So we've got more output without escalation of costs, so that you do get that.

Senator **Cochran**. Yes. We have seen the income go up without payments necessarily going up.

Mr. **Gardner**. That's true.

Senator **Cochran**. And that is something, I think, that, you know, some on this committee get confused. I hear Senators say, you know, we don't want to make a change in the program because if you do then you are going to affect adversely net farm income and thereby trying to correlate the degree of Government subsidy with the amount of farm income. That is a mistake, isn't it?

Mr. **Gardner**. It's a very bad mistake, and I think you can just look at what has happened since 1985 overall and you see in this same period——

Senator **Cochran**. There has actually been a trend line that has gone down in terms of Government support levels. Isn't that true?

Mr. **Gardner**. Exactly right.

Senator **Cochran**. And net farm income has gone up. Isn't that right?

Mr. **Gardner**. Yes, sir.

Senator **Cochran**. I may send that around in a dear-colleague letter. [Laughter.]

Mr. **Gardner**. That's a good idea.

Senator **Cochran**. Yes.

There is one other question that I have, Mr. Chairman, and then I will have no other questions.

That is about the flexibility suggestion. And as a philosophical matter, I agree with you that we probably ought to have available to farmers more opportunity for decisionmaking, you know, at the farm level in terms of what they can or cannot plant.

In that connection, wouldn't we achieve a greater degree of flexibility if we were to eliminate cross compliance rather than adopt the NCA approach that you have described for us today?

Mr. **Gardner**. Well, in some sense, you would be able to do things. But now what you want to avoid is having the farmers' adjustments between crops based on comparing target prices for one crop with market prices for another. We want to see the decision based on market prices on both sides of the equation.

Senator **Cochran**. Senator Pryor and I are going to be introducing a bill that contains an option for cross compliance repeal, and I am curious about how that would operate. You don't get any target price benefits, though, for the overplanting.

Mr. **Gardner**. Yes. That's right. Now, what would happen on the acreage that you plant the additional in nonprogram crops——

Senator **Cochran**. Yes, you're suggesting that so long as we don't get program benefits for that additional acreage, you wouldn't have any objection to it? Is that right?

Mr. **Gardner**. Well, are you going to lose program benefits on the additional acreage?

Senator **Cochran**. On your base acreage.

Mr. **Gardner**. Yes. In other words, say you're switching from rice to cotton, or say it's rice to wheat, and you plant more rice on your wheat base, are you going to lose wheat payments?

Senator **Cochran**. You would argue that if we didn't lose those payments, then we wouldn't have a true flexible program.

Mr. **Gardner**. Yes.

Senator **Cochran**. You want the risk to be there to lose something.

Mr. **Gardner**. I want the farmer to be looking at the relative market prices of the two commodities in deciding——

Senator **Cochran**. Rather than the program benefits.

Mr. **Gardner** [continuing]. The acreage to plant.

Senator **Cochran**. Yes.

Mr. **Gardner**. Yes.

Senator **Cochran**. For market rather than farming the program.

Mr. **Gardner**. Right. So whatever proposal you can come up with that does that I think is good.

Senator **Cochran**. OK.

Thank you, Mr. Chairman.

Senator **Pryor**. Yes, Senator Cochran.

Dr. Gardner, my major concern at the moment is trying to build in a formula or a system. I always look at the bottom line, and that is the net income to the rice producer out there. That is where my focus is, is net income.

Now, if you are talking about basically freezing target prices, and that seems to be your position, and if you're talking about the cost of production of rice and you're also talking about taking some rice out of production and moving it somewhere else, that to me sounds like that farmer is out there caught in the middle with less protection and ultimately less net income.

Maybe I have missed a part of the equation. You are an economist. Where have I missed out on this?

Mr. **Gardner**. Well, first, again we have been using frozen target prices as the baseline example. That is not our recommendation. That doesn't necessarily conflict with our recommendation. [Laughter.]

Mr. **Gardner**. But again we haven't made one yet. [Laughter.]

Mr. **Gardner**. That is to clarify that if I might.

But on the point about——

Senator **Pryor**. Where did you learn how to do all this? [Laughter.]

I want to learn that. [Laughter.]

Mr. **Gardner**. Now, you say if the producer——

Senator **Pryor**. Well, he's got his target prices frozen.

Mr. **Gardner**. Yes.

Senator **Pryor**. And you're talking about flexibility, moving rice out of the rice program and no payments there, and the cost of production. What do you think the cost of production is going to be per year in the next 5 years for the rice producer, increase? You're not going to say it's decreasing, are you?

Mr. **Gardner**. No. But I don't see a reason for it to escalate. Of course, it's going to depend on energy prices and chemical prices as well as other costs.

Senator **Pryor**. You see those costs, you see energy prices or chemical or fertilizer prices as going down?

Mr. **Gardner**. No, I don't. But at the same time I see continuous yield improvements, a little bit, so that that will tend to offset it.

Senator **Pryor**. By the way, on another matter, and you may not be an expert on this, I just finished 9 months' service, I think, a form of slavery, on the Pepper Commission, making a recommendation on how to bring 37 million people with no health insurance into the system, and not to bankrupt small business and agriculture and everyone else who has had a problem buying insurance for their employees.

Have you seen any projections on the cost of health care in the last few weeks?

Mr. **Gardner**. Health care for farmers?

Senator **Pryor**. Health care for all of us.

Mr. **Gardner**. Health care for everybody? No, I haven't.

Senator **Pryor**. Well, it's 12 percent of our GNP, and it's the fastest-rising cost in our society today. So you might factor a little of that in sometime when you're looking at the cost of production.

Mr. **Gardner**. Yes.

Senator **Pryor**. Which is a real cost.

Anyway, I interrupted you. Go ahead.

Mr. **Gardner**. Well, I was going to say that I don't see how flexibility in itself is going to reduce farm income. I mean when farmers make decisions that look good to them on market expectations, they won't be doing it unless they expect to improve their net income position. Therefore, they are going to improve their net income position unless there is a problem that everybody makes an adjustment and you have some market price response to it.

But in the case of rice, because you have the target price protection, I don't see that that is a significant downside risk. So it seems to me that farmers can't do badly.

Senator **Pryor**. Can't?

Mr. **Gardner**. Cannot do badly under flexibility.

Senator **Pryor**. But the cost of production is not going to be a factor?

Mr. **Gardner**. Well, the cost of production will be a factor. That will be a factor.

Senator **Pryor**. And the freezing of target prices?

Mr. **Gardner**. That will be a factor whether you have flexibility or not.

Senator **Pryor**. I am going to ask one or two more questions. Then I am going to yield to Senator Cochran. And then we will call our panel.

Do you think today that there are any decisions being made or any discussions in points of discussion in GATT, in that framework, that are going to have an adverse impact on the rice producer in this country?

Mr. **Gardner**. Well, I am not sure what is happening today exactly. But the overall thrust of GATT, it seems to me, will be favorable for the market for grains generally, and rice would share in that.

That is, if we are successful in GATT in getting countries around the world to reduce their barriers to our imports and stop subsidizing their exports, this can only do good for the commodity markets.

Senator PRYOR. Which brings me to my final question: How are we doing with Japan today about selling rice in Japan? Could you give us an update?

Mr. GARDNER. Well, we have heard varying reports lately on how firmly Japan is determined to protect that market.

Senator PRYOR. None of those reports I have heard are varying. [Laughter.]

Mr. GARDNER. Oh, yes, well, I have. I have heard some suggestion of more give there than there had been in the past. I would hope we will see more, though, down the line.

Senator PRYOR. Is USDA actively pursuing this?

Mr. GARDNER. Well, we are doing what we can to encourage the process, which is broader than just USDA, but the whole process of getting Japan to open up generally and in the case of rice in particular. If Japan would take some of our rice, there is room for a lot there, and that would help us.

Senator PRYOR. I have mentioned the GATT and Japanese—let me add one question I was not going to do this—but now just in looking at sort of the world parameter a little bit, we have just taken all of the GSM credit that Jamaica had, we have eliminated that in your proposal.

Now, I understand they have been a pretty good customers under the GSM, and why have we eliminated Jamaica from this credit?

Mr. GARDNER. You are not talking about the Green Book proposals now, are you?

Senator PRYOR. I think the 1990 GSM report has recommended Jamaica receive zero there. At one time they had $8 million in credit; last year, $4 million; and this year, zero. Could you explain that? I trust that AID has stated it is not in the Green Book.

Mr. GARDNER. Yes. It is not part of our farm bill proposals, but it is not—and I don't really know this issue. I couldn't tell you.

Senator PRYOR. Fine. Well, if you could, Dr. Gardner, would you submit that for the record?

Mr. GARDNER. We will try.

Senator PRYOR. Because it is my understanding they have been a very good customer and the GSM program has worked very effectively for them. In fact, I will just place in the record the GSM 102/103 fiscal year 1990 report so we can sort of analyze it so the other members of the committee could have that before them.

Mr. GARDNER. I would be pleased to try to explain that.

Senator PRYOR. Thank you.

Senator Cochran, I have no further questions of Dr. Gardner.

Senator COCHRAN. I guess one more, Mr. Chairman, if I could be permitted to do that.

I notice that our projections are that exports are going to be higher this year than they were in some time, at nearly $40 billion. These are 1989 figures.

Do you expect our rice exports to continue to be a significant part of our overall export volume? What is your outlook for that?

Mr. GARDNER. Well, again it depends on how the markets evolve. But our overall expectation is that in rice there will continue to be a reasonable market for rice and it will expand a little bit, not tremendously. We don't have in our baseline a tremendous growth in rice exports, but we maintain a bit of an increase.

Senator COCHRAN. OK.

Thank you very much, Mr. Chairman.

Senator PRYOR. Senator Cochran, thank you.

Dr. Gardner, thank you once again for appearing with us. We appreciate it.

Mr. GARDNER. Thank you.

Senator PRYOR. Dr. Gardner, there may be a few further questions that Senator Cochran or myself or other members of the subcommittee or the full committee would like to pose, and we hope when those questions do come to you, if there are questions, you would respond as quickly as possible.

Mr. GARDNER. I certainly will, Mr. Chairman, as quickly as possible.

Senator PRYOR. Thank you, Dr. Gardner.

We will call our panel No. 2. In fact, we are going to combine panel 2 and panel 3 today. Al Montna, Farmers' Rice Cooperative, from California; David Hillman, from the State of Arkansas; John Denison, from Iowa, Louisiana; Rex Morgan, Indianola, Mississippi; and Steve Balas, from Eagle Lake, Texas.

We have gotten, I believe, all the rice States represented here, Senator Cochran.

And then of course Ron Caffey, director of raw materials, Uncle Ben's, from Houston.

We will just ask all of our friends to come forward and we will combine these two panels into one today.

Senator Cochran, is it true that one of our individuals is not present?

Senator COCHRAN. I believe we've lost our Mississippian here somewhere.

Senator PRYOR. Yes. Excuse me. I believe he called in.

Senator COCHRAN. But we've got a few in the audience.

Senator PRYOR. All right. Fine. We may call them up and have them testify.

But, Senator Cochran, I think it would be appropriate today for the record to indicate this may be the first time since I have been on the committee that we have had our producers and our millers on the same panel. Now that to me is symbolic. That to me says that there is a tremendous amount of unity out there between the producer and the miller, and I can't think of a healthier situation to happen.

We would like to thank you for not only combining your forces, but also requesting today, both sides have requested, that you join together in showing a united effort. And I think that is very, very nice.

We are going to call on Al Montna first, from the Farmers' Rice Cooperative.

Al.

STATEMENT OF ALFRED G. MONTNA, CHAIRMAN OF THE BOARD, FARMERS' RICE COOPERATIVE, YUBA CITY, CA

Mr. MONTNA. Thank you, Mr. Chairman, Senator Cochran.

INTRODUCTION

My name is Alfred Montna. I am chairman of Farmers' Rice Producers in California that represents 1,300 rice producers. I am also chairman of the California delegation to the U.S. Rice Legislative Group, and I serve as vice chairman of the U.S. Rice Producers Legislative Group.

We offer our apologies to the Senators from Rex Morgan, from Mississippi, who couldn't attend today. He was called away unexpectedly. But the rest of our States are represented.

We appreciate the opportunity, Mr. Chairman, to appear and express the views of the U.S. Rice Legislative Group regarding the farm legislation. The U.S. Rice Legislative Group represents the vast majority of rice producers and the principal rice-producing States of California, Arkansas, Louisiana, Mississippi, Texas, and Missouri. Our group includes rice producers, rice grower associations, rice marketing cooperatives, and general farm organizations concerned with rice policy.

We are extremely proud of the fact that we are testifying today with the representatives of Rice Millers' Association, Ron Caffey and David Graves, because we are representing a united position regarding the rice provisions of the 1990 farm bill. It is our great pleasure that the entire rice industry, both growers and millers, are united in our recommendations for the current program and that it be extended in substantially its present form for the full 5 years.

The rice program has worked very well.

FOOD SECURITY ACT OF 1985

When the Food Security Act of 1985 was signed into law, the U.S. rice industry was in a noncompetitive economic situation with heavy surpluses, declining markets, and low prices. The 1985 farm bill put us back in business.

Today the U.S. rice industry has recaptured its lost markets. We have a competitive economic position. Prosperity is generally satisfactory, and our surpluses are totally gone.

The Food Security Act of 1985 has done its job. Stocks are in balance with demand. We are selling what we grow.

The rice provisions of the 1985 farm bill, in particular the market loan concept, were mostly the efforts of you, Senator Pryor, and that of Senator Thad Cochran, and we express our gratitude for your efforts and the leadership in that regard.

THERE ARE SEVERAL FACTORS RESPONSIBLE FOR THE REMARKABLE TURNAROUND IN OUR INVENTORY AND OUR COMPETITIVE ECONOMIC SITUATION

The rice marketing loan program has made U.S. rice competitive in world markets and eliminated burdensome inventories overhanging the market.

The target price system has provided the safety net that ensured continuation of the family oriented farm structure that has made U.S. agriculture a force in world trade.

Additionally, through the acreage reduction program, the Department has been able to balance production with demand.

The program has been an excellent economic development program for rural areas. It put people back to work, whereas in the early 1980's rice-growing areas were in high unemployment and low prosperity. This is no longer true. The marketing loan program has put people back to work, and we are operating our facilities.

ISSUES WE WOULD LIKE TO BRING TO YOUR ATTENTION ON THE 1990 RICE LEGISLATION

We wish to comment briefly on a few specific issues we would like to bring to your attention on the 1990 rice legislation.

Our U.S. Rice Legislative Group supports continuation of the acreage reduction program. That will assure sufficient production to meet demand in all markets, but not create burdensome stocks that overhang the market and increase the cost to Government.

To this end, we recommend a modification in the goals of the acreage reduction program. The program's objective should be a 20 percent ratio of carryover stocks to utilization, using the average utilization in the past 3 years. This should provide sufficient stocks at the beginning of the year to meet market demand until our new crop is harvested and ready for milling.

To support the continuation of target prices of not less than—and we stress, not less than—$10.71 per hundredweight for the full 5 years of the bill, the price should not be lower. It is already 10 percent below the level in effect at the start of the 1985 farm bill. That is not taking into account the erosion due to inflation and increased water costs. And undoubtedly, the target price will be affected by budgetary cuts in the future.

On a national basis, the total cost of production for rice is close to the target price, according to a recent study just completed by our land-grant universities in the rice-producing States.

We also see no reason to change the minimum loan rate of $6.50 per hundredweight, as recommended by the administration. As long as the market loan program is in effect, the loan rate doesn't inhibit the ability to compete as long as the administration continues to determine the world price objectively. The loan rate has been close to the market price and the availability of the loan program has enabled producers to obtain temporary financing until a market could be found for their commodity. Reducing the loan rate to 75 percent of market price, as recommended by the administration, would, in effect, eliminate the usefulness of the loan program.

Mr. Chairman, we share your concern with the unchartered waters of flexibility. Considerable discussion is taking place on flexibility. We believe current law provides many opportunities for planting flexibility today. The U.S. rice industry has a reputation as a dependable supplier, and we are concerned that some proposals would disrupt markets or shorten supplies.

We believe any measure for additional flexibility should be done with moderation. We are particularly concerned about the USDA's normal crop acreage proposal. It has no relationship between actual plantings and historical basis. We feel it would be possibly detrimental to the rice industry and have budgetary exposure.

The proposals we would favor in flexibility are, for instance, the overplanting option to permit the producer to exceed base subject to reduction in payments. He would be farming for the marketplace. And elimination of cross compliance or offsetting cross compliance requirements.

We would be pleased to work with the committee on flexibility in order to accommodate the interests of other commodities.

There is an increased public concern in the need to enhance our environment. We share this concern. Farmers are vitally interested in water and air quality and soil conservation. We do not advocate mandating particular production practices, because different sections of the country have different practices. What works in one area may not or will not work in another. We believe a practical approach emphasizing research and education is most likely to succeed to allow the Nation to produce while caring for the environment.

We are also aware of the continuing effort to reform food safety legislation. That deals with regulation of pesticide residues in food. Again, farmers are most directly affected. We are both consumers and producers of food. We support changes that will improve the Government's ability to take prompt action when necessary.

However, in any standards set, we believe it is essential that the benefits of pesticide use to food consumers in the form of affordable, varied, reliable, and plentiful food supply must be weighed against any risk included in any food safety legislation or that chemicals present.

We urge a continuation of aggressive food export programs. It is especially important, with the Uruguay round of GATT entering the critical stage. It is vitally important that the United States not unilaterally eliminate or make major revisions to existing farm policies. U.S. rice farmers can't compete with Governments that unfairly subsidize their producers. We cannot and should not wait much longer before meaningful, successful negotiations occur between our Government and Japan over the rice access issue. We solicit your support in continuing to press the administration in redoubling its efforts on this issue.

Finally, we have noticed that there are some who would target program benefits to disqualify large producers. We are opposed to such an approach in the farm legislation. Current law limits to each person or entity to $50,000 per year. Last year, legislation was enacted to correct problems in the administration of this program. We have made those corrections. Please give us time to let them work. The legislation is working. The $50,000 limitations assures no person is unduly benefiting from the program.

Furthermore, as I indicated earlier, costs-of-production studies from land-grant universities demonstrate that margins of producers under the program are not great. And without benefits, the program would cause financial hardships to many, including large producers.

Any targeting legislation would be very disruptive to the rice-producing industry in our ability to compete in the world market.

We believe we should develop sound farm policy for American agriculture, not social welfare legislation.

CONCLUSION

Mr. Chairman, these are our comments we wish to offer for the committee's consideration at this time. We would be pleased to provide additional comments on specific provisions of the 1990 farm legislation at the appropriate moment.

Thank you.

Senator **Pryor**. Thank you, Mr. Montna.

[The prepared statement of Mr. Montna follows:]

TESTIMONY OF ALFRED G. MONTNA

12755 A GARDEN HIGHWAY
YUBA CITY, CALIFORNIA 95991
VICE CHAIRMAN, U.S. RICE PRODUCERS' LEGISLATIVE GROUP

BEFORE
THE SENATE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES

HEARING ON
THE 1990 FARM BILL
WASHINGTON, D.C.

MARCH 5, 1990

TESTIMONY OF ALFRED G. MONTNA
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MARCH 5, 1990

Mr. Chairman and members of the Subcommittee, my name is Alfred G. Montna. I am a rice producer from Yuba City, California, and Chairman of the Board of Farmers Rice Cooperative, representing 1300 rice producers. I am also Chairman of the California Delegation to the U.S. Rice Producers' Legislative Group, and I serve as Vice Chairman of the U.S. Rice Producers Legislative Group.

I appreciate this opportunity, Mr. Chairman, to appear before the Committee and present the views of the U.S. Rice Producers' Legislative Group regarding issues related to prospective 1990 farm legislation.

The U.S. Rice Producers' Legislative Group represents rice growers in the principal rice producing states of Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. Our group includes rice growers, rice grower associations, rice marketing cooperatives, and general farm organizations concerned with rice policy.

We are testifying here today jointly with representatives of the Rice Millers Association united in our position regarding the rice provisions of the 1990 farm bill. It gives us great pleasure to inform you that the entire rice industry, both growers and millers, are united in our recommendations that the current program should be extended in substantially its present form for a full five years.

The rice program has worked well.

When the 1985 Food Security Act was signed into law, the U.S. rice industry was in a non-competitive economic situation with heavy surpluses, declining markets, and low prices. The 1985 Farm bill put us back in business!

Today, the U.S. rice industry has recaptured lost markets, we have a competitive economic position, we have a level of prosperity in our industry that is generally satisfactory and surpluses are gone. The 1985 Food Security Act has done its job.

Stocks are in balance with demand! We're selling what we grow. Not only has the 1985 Act made U.S. rice competitive but it has done this while providing farmers an income safety net in the form of a target price system.

The rice provisions of the 1985 farm bill, and in particular, the marketing loan concept were mostly the result of your efforts, Senator Pryor, and that of Senator Thad Cochran of Mississippi. We wish to express our gratitude for your leadership in this regard.

There are several factors that are responsible for this remarkable turnaround in our inventory and our competitive economic situation.

* The rice marketing loan program has made U.S. rice competitive in world markets and eliminated burdensome inventories overhanging the market.

* The target price system has provided the safety net that ensured continuation of the family-oriented farm structure that has made U.S. agriculture a force in world trade.

* Additionally, through the acreage reduction program, the Department has been able to balance production with demand.

* The program has been an excellent economic development program for rural areas. It has put people back to work, whereas in the early 1980s when the rice business was slow, many rural areas in the rice-growing areas of the country were dominated by high unemployment. This is no longer true. The marketing loan program has put people back to work by their growing, hauling, milling, processing, packaging and transporting rice.

I wish to comment briefly on a few specific issues which we wish to bring to your attention in your consideration of rice legislation.

1. Our Group supports continuation of an acreage reduction program that will assure production of sufficient rice to meet demand in domestic and export markets and at the same time not result in burdensome stocks that will overhang the market and add to Government costs. To this end we recommend a modification in the goals of the acreage reduction program. In our view, the program should have as its objective a 20 percent ratio between carry-over stocks and utilization (using the average utilization in the past three years). This should provide sufficient stocks at the beginning of the marketing year to meet expected demand until the new crop is harvested.

2. We support continuation of the target price of not less than $10.71 per cwt. for the five year period of the bill. This price is exactly where it should be. It is ten percent below the level in effect at the outset of the 1985 farm bill and will undoubtedly be affected by budget cuts in the future. In the period since the last farm bill was enacted, the cost of our inputs has increased markedly because of inflation and the increased cost of water. On a national basis, the total economic cost of production for the rice industry is close to the target price according to a study by the land grant universities in the rice producing states.

3. We also see no reason to change the minimum loan rate of $6.50 per cwt. as recommended by the Administration. As long as a marketing loan program is in effect, the loan rate does not inhibit our ability to compete vigorously in the marketplace provided the Administration continues to determine the world price objectively. The loan rate has been close to the market price and the availability of the loan program has enabled producers to obtain temporary financing until a market could be found for the rice. Reducing the loan rate to 75 percent of the market price as recommended by the Administration would in effect eliminate the usefulness of the loan.

4. There has been considerable discussion of flexibility. We believe current law provides many opportunities for planting flexibility. The rice industry in the United States has a reputation as a dependable supplier and we are concerned that some of the proposals could have the effect of disrupting or shorting supplies. We believe that any measures for additional flexibility should be done with moderation. We are particularly concerned with the so-called normal crop acreage proposal which would give producers freedom to plant any crop within the overall farm base, but would pay them on their historical crop acreage base that has no relevance to actual plantings. Any flexibility program should provide for program benefits based on actual plantings. Some of the proposals which we would favor would be an overplanting option that would permit a producer to exceed a base subject to a reduction in payments and elimination of any cross-compliance and off setting compliance requirements. We would be pleased to work with the Committee on flexibility proposals in order to accommodate the interest of other groups.

5. There is an increased concern among the public about the need to enhance the environment. We share this concern. Farmers are vitally interested in water quality and in soil conservation.

We do not advocate mandating any particular set of production practices since different sections of the country require different practices. We believe, however, that a practical approach which emphasizes research and education is most likely to succeed in allowing the nation to continue to produce crops while caring for the environment.

We are aware also of an effort underway to reform Food Safety legislation that deals with the regulation of pesticide residues in food. Again, farmers are most directly affected since they are both consumers and producers of food. We support changes that will improve the government's ability to take prompt action when necessary. However, in any standards that are set, we believe it is essential that the benefits of pesticide use to food consumers in the form of an affordable, varied, reliable and plentiful food supply must be weighed against any risks that pesticide use may pose.

6. We urge continuation of legislation that provides for aggressive export programs. With the Uruguay Round of GATT entering a critical stage, it is vital for the U.S. not to unilaterally eliminate or make major revisions to existing farm policies. U.S. rice farmers cannot compete with governments that unfairly subsidize their rice producers. Furthermore, market access continues to be a high priority for U.S. rice producers. We solicit your continuing support in pressing the Administration to redouble its efforts to gain access to the Japanese market.

7. Finally, we have noticed that there are some that would target program benefits so as to disqualify the larger producers. We are opposed to any such approach in farm legislation. Current law limits payments for each person or legal entity to $50,000. Little over a year, ago legislation was enacted to correct problems in administration of the program. This legislation is working. The $50,000 limitation assures that no person is unduly benefitting from the program. Furthermore, cost of production studies by the land grant universities demonstrate that the margins of producers under the program are not great and that without program benefits it would cause financial hardship to many -- including the larger producers. Any targeting legislation would be disruptive to the rice producing industry and to our ability to compete in the world market.

Mr. Chairman, these are the comments that we wish to offer for the committee's consideration at this time. We will be pleased to respond to any questions and will provide additional comments on specific provisions of the 1990 farm legislation at the appropriate time.

Senator **Pryor**. At this point in the record I am going to place two written statements. One is by Mr. David Senter, who is the national director of the American Agriculture Movement. Mr. Senter has a three-page statement. I have read the statement. It was very well done and very provocative.

I secondly have a statement of Mr. Bryan Moery, who is submitting this on behalf of the Cross County Rice Growers. Once again, I have read his statement and, I think, he has also presented some very constructive points and suggestions.

[The prepared statements of Mr. Senter and Mr. Moery follow:]

PREPARED STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT, INC.

Thank you, Mr. Chairman. I am David Senter, National Director of the American Agriculture Movement, Inc. AAM is a general farm organization which represents farmers producing a wide variety of commodities in 32 states. Thank you for the opportunity to be here today to share my organization's ideas on provisions of the rice program for the 1990 farm bill.

Many things have changed since hearings were held on the Food Security Act of 1985. Stocks of many commodities have been drawn down by last year's drought. Market potential in the Soviet Union and Eastern Europe have increased enormously, while trade prospects with China have been up in the air. Many marginal acres of land have been taken out of production through the Conservation Reserve Program. And, there are many fewer farmers now than there were five years ago.

But, for all of the changes over the last five years, several things remain the same. One thing that has not changed is AAM's commitment to the idea that every producer should have the chance to earn a fair living from the marketplace, with agricultural prices that cover the cost of production. A second thing that continues from 1985 is the unfortunate insistence by some in our government that the only valid goal for international relations is absolute free trade and that the best way to increase trade is to lower prices.

AAM supports the continuation of a marketing loan program for rice, but we believe that the loan rate should be raised to the target price level. We do not agree with USDA's farm bill proposals on loan rates for rice. The effect of calculating loan rates on 75 - 85% of a moving average of market prices, rather than the current 85%, would be to lower loan rates by as much as 10%. The effect of applying the Findley provision to rice clearly would be to lower loan rates by another 20%. The effect of eliminating a statutory minimum loan rate is obvious as well. The Administration does not offer where it would set target prices, but common sense would say that dropping loan rates by as much as 30% would cause prohibitively large deficiency payments unless target prices would be slashed as well. The Administration's farm bill plan for rice would cut prices, and devastate producer income, both here and in the third world.

Low prices and income have been the problem, not the solution. Market prices that reflect production costs will benefit rice producers worldwide. Supply control measures should be used to keep market prices above loan rates. The method of supply control should be through marketing quotas, such as AAM supports in dairy, or production limits through setasides. AAM also believes we should use an extended loan for the rice, as well as other commodities, similar to the one used in the cotton program. This would allow flexibility by allowing marketing decisions based on common sense choices rather than marketing decisions based on no choice at all. The extended loan would also partially reduce the problem of income averaging, which has plagued farmers since enactment of the Tax Reform Act of 1986.

In addition, AAM urges consideration of higher loan rates to avoid the increasing problem with payment limits for rice farmers. The higher loan rates would result in reduced direct payments to farmers. We also emphasize the need for price support levels to be indexed to cover the increases in the cost of production.

Rice setaside requirements should be directly tied to carryover stocks, with little discretionary authority for the U.S. Department of Agriculture. The Secretary should have to account for what's already on hand in deciding what production levels should be for the next year. And, he should be held accountable to Congress if he establishes setaside levels that result in costly surpluses.

Rice bases should be stated in terms of hundredweight rather than acres. From a planning standpoint, it is easier for producers trying to manage their input costs, and it is also easier for program administrators to plan supply needs and determine program costs. We also recommend requiring that, whenever an acreage setaside or other supply control tool may be in effect for rice, that producers' bases be frozen for the year.

Despite the budgetary considerations alleged by some people, producers should have the chance to establish their actual yields with ASCS. And, producers should be able to use the same established yield history for all USDA agencies -- including ASCS, FCIC, and FmHA. Common sense requires that producers be paid according to their ability to produce, not by some artificial formula that can be manipulated at the whim of the Office of Management and Budget. AAM does not support creating a separate "payment base" to cut program costs. The way to cut commodity program costs is to raise loan rates, which will give producers a fair price at the marketplace, not to drive prices down and then slip the rug out from under the support program. We believe that payments should be in exchange for production, and we will oppose any efforts to force farmers or taxpayers through a back door into "decoupling," where the government gives farmers handouts for a few years whether or not they contribute toward feeding this nation and the world.

AAM recommends discouraging the practice of jumping in and out of the program in order to build base. We would suggest requiring any producers who choose to leave the rice program to stay out for a second year, and then to take a "zero" in yield and base calculations for the years out once they return to the program. Stepping out of the program for a year to build base frustrates the purposes of supply control, and can increase taxpayer costs. We certainly shouldn't reward those producers who are trying to farm the program instead of the land.

To balance the need for consistency with the need for flexibility in program administration, we would recommend placing as much authority as possible with the local ASCS county committees. These people are in the best position to tailor programs to fit local conditions, while understanding local practices well enough to distinguish between inadvertent errors and a substantial failure to comply with the program.

We cannot discuss farm legislation without also discussing the General Agreement on Tariffs and Trade, or GATT, which has progressed from total elimination of all programs by the year 2000 to a substantial reduction of "trade distorting" subsidies. We are still concerned by public statements made by Secretary Yeutter since the initial Geneva agreement, however. Secretary Yeutter told this Committee in April that Congress is free to write a 1990 farm bill, but that of course it would have to be modified later to become compatible with the final GATT agreement.

We are concerned because past farm bills have left the Secretary a great deal of discretion to implement -- or not implement -- programs as he saw fit. Even though the U.S. Trade Representative and the Secretary of Agriculture have sworn to uphold the law of the land, we are concerned that many important parts of a 1990 farm law will simply be ignored if the Administration can't convince Congress to change the law. Given the Administration's complete failure to defend our sugar program in GATT, and its failure to even include a sugar program in its 1990 farm bill proposal, we believe our concerns are well-founded.

AAM believes that it is very important to retain programs that help the U.S. enforce fair trade terms and keep us competitive against heavily-subsidized foreign competitors. We believe there is an appropriate role for the marketing loan program in rice. However, we are concerned that world prices have already been forced too low for any substantial gains in market share to really benefit American producers. Volume without value is meaningless. We would prefer to see international negotiations, either through GATT or through another similar group, to discuss supply and demand -- including reserve needs -- on a global basis. AAM believes that such negotiations could result in a substantial improvement in exports of rice; not by dumping on the world market at "fire-sale" prices, but by convincing customers that the U.S. is a reliable supplier of a high quality product.

Implicit in those negotiations would have to be a renewed commitment to third world nations for economic development. We will all benefit if our potential customers' economies can be developed to the point that they can pay us a fair price for our product. The success of the 1990 farm bill's rice title is closely tied to the success of other provisions, such as Public Law 480, in developing genuine demand for American commodities.

One last point is that AAM is very concerned about proposed "Means Testing" for program eligibility. Farm programs are not social programs designed to provide income assistance to underprivileged.

Thank you for the opportunity to be here today. I would be happy to answer your questions at this point.

STATEMENT OF BRYAN MOERY, SUBMITTED FOR THE RECORD ON BEHALF OF CROSS COUNTY RICE GROWERS BEFORE THE SENATE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES, MARCH 6, 1990

Mr. Chairman, I am submitting this statement on behalf of a group of Cross County rice growers who got together to discuss what we would like to see in new farm legislation. Cross County is the third largest rice producing county in Arkansas, which is the largest rice producing state. Almost 76,000 acres of rice were harvested in Cross County in 1988.

Let me say that we like the marketing loan for rice. We think it is one of the most innovative additions to farm legislation in years. It allows the market to function while assuring reasonably efficient farmers enough income to remain in business. We would like very much to keep the marketing loan feature in new legislation.

We have got to stop lowering the target price for rice. In recent years, the target price has been lowered from $11.90 per hundredweight in 1985 to $10.71 per hundredweight in 1990. During that period of time, rice growers have increased yield but production costs have increased even faster. Producers are again feeling the cost-price squeeze.

We believe it would be worthwhile to tie target prices to the cost of production. If this were done, it would take into consideration increased yields on the income side while including inflation on the cost side. To us, it seems a fair way to set target prices.

We are also interested in flexibility. By flexibility, we mean the freedom to operate our farms for a profit. We believe that elimination of cross compliance would be the best way to achieve the needed flexibility. we don't believe that elimination of cross compliance would lead to big over production of program crops. We certainly could not afford to produce rice without program benefits. In cross county, we might plant more wheat and grain sorghum. Wheat is a better crop for us than soybeans and grain sorghum would be helpful to us in our rotations.

Another way to achieve flexibility would be to adapt the 1990 wheat program to all crops. This would allow farmers to increase their plantings while sacrificing program benefits on the number of acres by which they over planted their permitted acres.

We would like very much for new legislation to provide a manner for updating yields. We understand the argument against proving yields because of the added program cost. We are finding that there is a great deal of unhappiness because of the inequity of yields as they now stand. There has been much consolidation of farms in recent years and this has served to emphasize the inequity.

It would also be very halpful if the rice program could be announced earlier. Delaying the announcement may aid USDA in getting a better handle on stocks but it sure works a hardship on farmers in planning for the coming year.

Finally, we would like to see some incentives in new legislation to induce farmers to build more surface storage for water. Rice uses a great deal of water. It remains under constant flood during the growing season. Presently, we are using mostly underground water. We believe that increased use of surface water would be better for everyone concerned. One incentive would be to allow the land used for reservoirs to be counted as permanent ARP. We would also suggest some type of tax incentive for building such reservoirs. We believe this would benefit farmers, the public and the environment.

- Thank you for considering our views.

Senator **Pryor**. Now we are going to call on the other side here, who is no longer the other side but are all in this family; that is, of course, our friend Mr. Ron Caffey, who is director of raw materials for Uncle Ben's, of Houston, Texas.

Ron, we appreciate your being here today, and I understand that you have a statement.

STATEMENT OF C. RONALD CAFFEY, CHAIRMAN OF THE BOARD, RICE MILLERS' ASSOCIATION, AND DIRECTOR OF RAW MATERIALS, UNCLE BEN'S, INC., HOUSTON, TX; ACCOMPANIED BY DAVID HILLMAN, ARKANSAS FARM BUREAU, ALMYRA, AR; AND JOHN DENISON, IOWA, LA; AND STEVE BALAS, EAGLE LAKE, TX

Mr. **Caffey**. We have a summary of our written statement that we have presented. I am glad you corrected that, Mr. Chairman. And by the way, I want to thank you and Senator Cochran for allowing us to be here to make our statement.

Senator **Pryor**. Thank you.

INTRODUCTION

Mr. **Caffey**. We appreciate that opportunity and the fact that you did say we are together. You know, there is a lot of hard work that goes into the public togetherness. We are together, as you will see in our statement.

Mr. Chairman, my name is Ronald Caffey. I am director of raw materials for Uncle Ben's, Inc., a rice milling and marketing firm based in Houston, Texas. I am here today in my capacity as chairman of the board of directors of the Rice Millers' Association (RMA).

RMA is the national trade association for the U.S. rice milling industry. We appear on the same panel today with our industry partners—the U.S. rice producers—and we are proud to say our industry comes to you today united in our objectives for the rice title of the 1990 farm bill. We fully recognize that both segments of the industry depend on each other and that one cannot prosper without the other.

FOOD SECURITY ACT OF 1985

Mr. Chairman, the Food Security Act of 1985 was truly landmark legislation. It adopted the dual objectives of maintaining an effective farm income safety net while implementing provisions such as the rice marketing loan program to provide prices to meet competition in the world markets. The results to date speak for themselves:

U.S. farm income at record levels; U.S. rice exports near record levels; domestic utilization of rice and rice products at record levels; development, employment, and opportunities in rice growing and processing areas measurably increased; stocks of Government-owned surplus rice eliminated completely.

THE RICE MARKETING LOAN PROGRAM IS MEETING CONGRESSIONAL OBJECTIVES AND INDUSTRY NEEDS

The reasoned but dynamic leadership provided by you, Senator Cochran, and others made these successes possible. I can report without reservation the rice marketing loan program is meeting congressional objectives and industry needs. The RMA strongly endorses its continuation in the 1990 farm bill.

The marketing loan works because it levels the international playing field. Its continuation is necessary until economic discipline is established in world markets.

THE MARKETING LOAN IS NOT A PRICE-SETTING MECHANISM BUT RATHER IS A PRICE-FOLLOWING MECHANISM

The marketing loan is not a price-setting mechanism but rather is a price-following mechanism. It allows us to meet the competition head on in world trade. The current tight stock situation for rice attests to the success of the marketing loan.

RMA SUPPORTS ADOPTING IN THE 1990 FARM BILL A STOCKS-TO-USE RATIO FORMULA FOR DETERMINING THE LEVEL OF ANY ACREAGE LIMITATION PROGRAM

However, pipeline stocks have been reduced to levels which may jeopardize certain markets and impact the reliable supplier status of the U.S. rice industry. Therefore, to better provide us for the reasonable but adequate supplies of rice, RMA, in cooperation with the U.S. Rice Producers Legislative Group, supports adopting in the 1990 farm bill a stocks-to-use ratio formula for determining the level of any acreage limitation program.

PLANTING FLEXIBILITY

Regarding the subject of planting flexibility, we urge that the Congress guard against provisions that address issues for some commodities potentially at the expense of other commodities. We believe there are adequate authorities in the current law to provide planting flexibility. However, these existing authorities have not been implemented.

Mr. Chairman, we are specifically concerned about planting flexibility concepts which allow unlimited base shifting among crops. We support proposals which address crop-specific problems without subjecting the economies of other commodities to significant destabilized variances. For example, if some farmers need to rotate acres, planted to feed grain in all seed crops for best management practices, they should have such crop rotation flexibility.

UNLIMITED FLEXIBILITY

Mr. Chairman, I am sure you will recall that an experiment in unlimited flexibility in the Food Security Act of 1985 actually forced swift amendment of that legislation. The quick change came out of a concern expressed by the producers of nonprogram crops in early 1986 that such flexibility could disrupt their markets. These producers were concerned about the impact of volatile swings in acreage and production.

BUDGET OUTLAYS

In the area of budget outlays, we realize agriculture, like every other sector of the U.S. economy, must deal with the realities of reducing the Federal budget deficit. However, the budget process does not credit legislative initiatives adopted prior to the budget with any cost savings. Therefore we recommend the continuation of price and income support levels at not less than current levels. We feel the budget will be whatever it is and any required agricultural contributions should be debated in that context only. Agriculture should not continue to be subjected to budget reductions twice each year and yet receive credit for only one.

COMMITTED TO RESPONSIBLE USE OF WATER RESOURCES

As an industry which relies heavily on water, we remain committed to responsible use of water resources.

FOOD SAFETY

Likewise our concern in the area of food safety is unsurpassed. The U.S. rice industry has a long history of providing a safe and wholesome product. We do not intend to allow that record to be tarnished.

Mr. Chairman, that concludes my statement. I would be happy to respond to any question at the appropriate time.

[The prepared statement of Mr. Caffey follows:]

STATEMENT OF
C. RONALD CAFFEY
CHAIRMAN, RICE MILLERS' ASSOCIATION
BEFORE THE SENATE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

March 5, 1990

Mr. Chairman, my name is C. Ronald Caffey. I am Director of Raw Materials for Uncle Ben's Incorporated, a rice milling and marketing firm based in Houston, Texas. I am here today in my capacity as Chairman of the Board of Directors of the Rice Millers' Association (RMA).

RMA is the national trade association for the U.S. rice milling industry. RMA's 25 members include both independent rice milling companies and farmer-owned cooperatives. Member facilities are located in Arkansas, California, Florida, Louisiana, Mississippi, Missouri and Texas. We also have 30 associate members, including major U.S. rice exporters.

RMA appreciates the opportunity to testify before this Committee. We appear on the same panel today with our industry partners -- the U.S. rice producers -- and are proud to say that our industry comes to you today united in our objectives for the rice title of the 1990 farm bill. We fully recognize that both segments of the industry depend on each other and one can not prosper without the other.

Mr. Chairman, Congress recognized in 1985 certain key U.S. farm policy factors were too rigid to provide optimum assistance in agriculture's modern marketing environment. As a result, U.S. products were uncompetitive. Flexibility was needed to address the uncertainties of a highly competitive, but imperfect, world agricultural marketing system. In the U.S. rice industry, marketing conditions had all but reached a crisis state. Our Acreage Reduction Program (ARP) had increased to 35 percent, but stocks continued building anyway, because exports had virtually ceased.

In response, flexible, pro-trade provisions were included in the Food Security Act of 1985. Some were untested, such as the rice marketing loan program.

However, Mr. Chairman, supported by reasoned but dynamic leadership by you and Senator Cochran, Congress adopted the rice marketing loan and other equally important pro-trade provisions.

The 1985 Food Security Act was truly landmark legislation in this regard -- marketing of U.S. agricultural products received consideration consistent with world marketing demands. But farm income support remained a primary objective. Therefore the Act adopted the dual objectives of maintaining an effective farm income safety net while implementing provisions such as the rice marketing loan program to provide prices to meet competition in world markets. Results to date speak for themselves:

--U.S farm income: at record levels.

--U.S. rice exports: increased.

--Domestic utilization of rice and rice products: at record levels

--Development, employment and opportunities in rice growing and processing areas: increased.

--Stocks of government-owned surplus rice: eliminated.

For last marketing year, rice exports were the second highest ever. The record year was 1980. Rice exports last year were 38 percent greater than the year prior to enactment of the marketing loan. Over this period, domestic use of rice increased 47 percent, with significant gains in both food and brewery use. New product innovation by RMA members and associate members continues to be well received by consumers.

Mr. Chairman, today I can report without reservation the rice marketing loan program is meeting congressional objectives and industry needs. RMA strongly endorses its continuation in the 1990 farm bill.

The marketing loan works because it levels the international playing field. Its continuation is necessary until economic discipline is established in world markets. Critics of the marketing loan should understand the program does not establish the world price. Administration of the program attempts to follow world prices. Effectiveness of the program in exporting U.S. rice depends on how well actual world transaction values are followed by USDA in making weekly price announcements. We encourage Congress to continuously review implementation of the marketing loan program to ensure the Department of Agriculture is following closely world rice trade.

To sustain the U.S. rice industry, it is simply not enough to regain markets. We must be able to maintain them. For this reason, the rice marketing loan program is an investment in the future of the industry, rural America and the nation's economy. Department of Agriculture analysis supports this conclusion. This analysis shows every $1.00 of agricultural exports generates $1.65 additional output and that every $1 billion in agricultural exports directly impacts 35,000 jobs. Therefore, in addition to stabilizing and supporting the rice industry, the rice program is a highly successful rural development program as well.

We realize agriculture, like every other sector of the U.S. economy, must deal with the realities of reducing the federal budget deficit. We know the federal budget deficit is a problem that will be dealt with in a separate bill. However, the budget process does not credit legislative initiatives adopted prior to the budget with any cost savings. Therefore, we recommend continuation of price and income support levels at not less than current levels. We feel the budget will be whatever it is and any required agriculture contribution should be debated in that context only. Agriculture should not continue to be subjected to budget reductions twice each year, and yet receiving credit for only one.

U.S. industry is often accused of managing for the short-term rather than building a long-term strategy. Mr. Chairman, the U.S. rice industry has made strategic investments in infrastructure and marketing to advance our competitiveness. Continuity in policy is essential if agricultural investments are to contribute significantly and continuously to farm and rural economies as well as the nation by maintaining optimum employment opportunities and generating maximum commercial activity and revenues.

Commercial sales to Europe, the Middle East, Canada, Mexico and South America attest to the worldwide demand for U.S. rice. A successful completion of the Uruguay Round of trade talks will hopefully increase opportunities to sell U.S. rice in Europe and allow us to compete for closed markets in Japan and South Korea.

A major objective of the rice program is to assure adequate supplies at reasonable prices. We believe adequate rice supplies are a necessary element of an effective market development program. Supplies to service existing and potential markets are necessary to assure a reliable supplier status for the U.S. rice industry.

The current stocks situation attests to the success of the marketing loan. However, pipeline stocks have been reduced to levels which may jeopardize certain markets and impact the reliable supplier status of the U.S. rice industry. Therefore, to better provide for reasonable, but adequate supplies of rice, RMA in cooperation with the U.S. Rice Producers Legislative Group, supports adopting in the 1990 farm bill a stocks-to-use formula for determining the level of any acreage limitation program. This new stocks provision must provide improved confidence about the future of the industry's ability to service markets, both domestic and foreign.

Regarding the subject of planting flexibility, we urge that Congress guard against provisions that address issues for some commodities potentially at the expense of other commodities. We believe there are adequate authorities in current law to provide planting flexibility. Some existing authorities have not been implemented, therefore, U.S. agriculture is not in the situation of having no flexibility available.

Our industry is concerned about planting flexibility concepts which allow unlimited base shifting among crops. We support proposals which address crop specific problems without disrupting the markets for other commodities. For example, if some farmers need to rotate acres planted to feedgrain and oilseed crops for best management practices, they should have such crop rotation flexibility. By providing options based on normal and usual practices, the economics of other commodities will not be subject to significant destabilizing variances.

Mr. Chairman, I'm sure you recall that an experiment in unlimited flexibility in the 1985 Food Security Act actually forced swift amendment of that legislation. The quick change came out of concern expressed by producers of non-program crops in early 1986 that such flexibility could disrupt their markets. Those producers were concerned about the impact of volatile swings in acreage and production. That concern lead to the first amendment to the 1985 farm bill. Proposals today for unlimited flexibility, even though they are restricted to program and oilseed crops, should be carefully analyzed. Such flexibility could very well cause unintended economic and market problems for program crops, especially for crops such as rice that have a relatively small acreage base.

As an industry which relies heavily on water, we remain committed to responsible use of water resources. We support scientific research which will ensure our continued responsible stewardship of all resources.

Likewise, our concern in the area of food safety is unsurpassed. As food grain producers and processors, we are forced to constantly balance benefits and risks. Our record speaks for itself. The U.S. rice industry has a long history of providing a safe and wholesome product. We do not intend to allow that record to be tarnished. We believe any changes or adjustments must be based on sound scientific studies.

I would be happy to respond to any questions.

Senator PRYOR. I thank you very much.

I have just a few questions for the panel, and then I am going to yield in a very few moments to Senator Cochran.

The income means test has been discussed this afternoon. It was discussed last week relative to the cotton program, and the income means test is something that the Office of Management and Budget is now kicking around. And I must say it has gotten my attention and I know it has gotten Senator Cochran's and others who are members of this committee.

Now, how would this affect the people? Let's say, let's go if we could to the producer side, and I will ask any of the producers.

Mr. Montna, you have already made comment.

Mr. Hillman, how would that affect the rice producer out there, the means test?

Mr. HILLMAN. Senator, we already work on a very thin margin, and regardless of the size of the operation the margins just aren't there, whether you're a big operator or a small operator. We already have the $50,000 payment limitation, and we just don't see a need to make any changes in it.

Senator PRYOR. Any further comments on the means test, we would be glad to hear from either the producers or the millers.

Ron, do you have a comment?

Mr. CAFFEY. Well, I have been in the business for 32 years, and I think the complexities—and I am really stepping out of my bounds—except the complexities of running a business, period, that aren't based on size of gross income, that should weigh on the amount of support that the Government has. I don't see any way that you can get factual data to control and to make an equitable process of implementing that program.

Mr. MONTNA. Senator, if I may respond. You know, the last 3 years we have had major adjustments in the program already; last year, a major readjustment in person determinations and so forth. And USDA worked with us and many people are reorganizing their operations.

We are just now getting that completed, and any further reduction in that would cause a major upheaval in the countryside, further reorganizations that would eliminate many people to reduce that level. And we would like to work with what we have. We think what you wrote is working extremely well and there is no need to change it.

Senator PRYOR. Senator Cochran, I am a little prejudiced here, but I am going to ask Mr. Hillman another question because I know a little bit about his operation. I know right where it is and I have a feeling for his operation. But I would like, if he would, to tell the committee what type of an impact the normal crop acreage-type flexibility that we have heard discussed this afternoon would have on your rice operation there in our State.

Mr. HILLMAN. Well, Senator, I feel that if we go to a normal crop acreage base, it perhaps would induce other people to enter the production of rice for 1 year and then the next year it would cause a high ARP set-aside provision. Those of us who have been in the rice industry for a number of years are basically going to stick with rice, so we would be the ones that would bear the brunt of the ARP, the higher ARP the second year. It would hit us who have been in the rice industry and continue to be. We would bear the burden and other people would get to reap the benefit from it.

Senator PRYOR. Mr. Denison.

Mr. DENISON. I might comment that I tend to judge ASCS and the Department of Agriculture on prior actions, and we have had a disastrous 10 years in the South, as you know, between droughts and floods. We had three major droughts and at least 3 years of major rainfall. This was the first year, unfortunately or fortunately, that I was qualified for disaster relief. And I learned that my crop base as far as soybeans was adjusted downward to reflect the least amount of acreage planted in those years. And because of years when I was unable to plant because of economic situations and bankers taking a dim view of soybeans, or weather, and I am afraid that they are going to look on actual planted acreage in the last 5 years to determine NCA which is going to be far less than what we had in the 1970's.

We have severe problems with the NCA concept in Louisiana. We don't have any problem with eliminating cross compliance, and that is producing for the market. I fail to understand why the renowned economists have a problem with that. I think that effectively follows the philosophy of flexibility.

Also, on flexibility, this farm bill allows flexibility. If you want to produce for the market without Government guarantees, you have that right. And I fail to comprehend, as a producer, where there is a need for more flexibility. If the market says produce wheat and I am doing so on one farm outside the program, then producers will do it. We shouldn't be led into producing with these artificial decoupling payments that may or may not follow.

I think that this is not in keeping with the free market concept. Louisiana farmers in general have real problems with the administration's proposals on flexibility. I am from the Farm Bureau, a general farm organization, and we are not enthused about what we see.

Senator PRYOR. Well, now we have heard from Louisiana and Arkansas, and we have heard from California. Let's hear just a moment from Texas.

What do you think now, Mr. Balas, what's going on down there in Texas with the rice producers? What are they most worried about? What have they seen that they like about the administration proposal, and what is that they don't like?

Mr. BALAS. Well, what we would like to do is to retain the farm bill that you have put in place. As for the NCA base, we don't care for that at all. Rice is a relatively small commodity compared to soybeans and corn. Any shifts either way would be very detrimental to the rice program in the United States.

What we would like to see is exactly what we put forward here: a continuation of the target price, of the minimum loan of $6.50 per hundredweight, and of the marketing loan.

We are very pleased with the program. We think it has done very well, and we like it like it is.

Senator PRYOR. Thank you very much, Steve.

I am going to end my round of questions right there and come back a little later.

Senator Cochran.

Senator **Cochran**. Mr. Chairman, I think the witnesses have given us some very good, cogent, clearly enunciated testimony about their views, and I want to congratulate you all for the time you have taken and the trouble you have gone to to come be with us to help us understand this industry and its views about the 1990 bill.

One question I have relates to the cost of production. There have been some estimates about costs of production that have been conflicting. Some that come from the land-grant universities have clearly been different from those from the Economic Research Service.

I wonder if any of you have any views on that and whether or not we need to bring some of these things to the attention of the department and urge that reconsideration be given to some of their analyses of these costs of rice production.

Anybody have any thoughts on that?

Mr. **Montna**. Senator Cochran, if I may, we initiated through the leadership of LSU, and John Denison has done a tremendous amount of work on this already, a joint effort of all the land-grant universities, developing our actual cost of production nationwide. And we should have a number for you within a month, I would expect, or less than that—perhaps tomorrow.

Senator **Cochran**. Perhaps tomorrow?

Mr. **Montna**. Perhaps tomorrow. We met with ERS as a group. We took it upon ourselves to get our individual land-grant colleges funded, their economists to come and meet with ERS so that they would get their assumptions on how they develop costs more in line. They are doing that. We think they are working closer to a larger amount of cooperation in the future. We would encourage your committee to monitor that progress because we think there is a great discrepancy between ERS's cost of production and our actual cost of production in the field, we think as much as $2 per hundredweight, in that range.

We will provide you with that, and hopefully they will work more toward what is really happening in the countryside.

Senator **Cochran**. My other question relates to the loan rate. I understand from your testimony that you urge the committee to maintain the $6.50 per hundredweight loan rate, that the cutoff not be changed.

Why is it so important to maintain that specific amount as the loan rate if the market price is higher than that? We have heard testimony that even though we have seen a trend line downward in some of the support levels for our commodities, income has gone up. How do you see that being so important?

Mr. **Montna**. Well, from the main issue, Senator, that the $6.50 has worked well on a vehicle, especially under the loan program and the financing structure, for the individual producer when he puts his commodity under loan and provides the adequate cashflow that he would need to continue until his product is marketed. That number has worked very well in today's world.

With the market loan concept in place, as long as that vehicle is administered correctly—the world market price is administered correctly—by USDA, then our market forces can work freely throughout the world.

So the $6.50 is a number—and it was derived out of the industry originally—is still a number that works for us today, but no lower than that.

Senator COCHRAN. Mr. Chairman—oh, go ahead.

Mr. HILLMAN. One point I would like to make is that is the basis of our bank loans. When I go to the bank to get a crop loan, they figure the loan on that $6.50 a hundredweight.

Senator COCHRAN. They feel like you're going to get that no matter what?

Mr. HILLMAN. Right. That's right.

Senator COCHRAN. That is what the value of that crop is going to be no matter what.

Mr. HILLMAN. Yes.

Senator COCHRAN. Yes, sir?

Mr. DENISON. Senator, I agree that the $6.50 becomes a very, very important tool in financing, and with the slim margins that there are today in the rice industry, it's getting more difficult every day to secure rice loans based upon cash-flow. I mean they don't want to look at assets anymore, they want the cash-flow.

The second point is I would like to comment very briefly on the cost of production that you asked about because we believe and have believed for many years that there have been discrepancies in the numbers coming out of ERS. Even though the intent of ERS is not to get involved in policy development for agriculture and the rice industry specifically, they have. And if the numbers in fact are incorrect, then you Senators and Congressmen are in a very poor posture in developing effective rice policy for the rice industry.

Louisiana admittedly is a high-cost State because of weather and disease factors that may not be prevalent in other areas. But we found out through this coordinated study by the five land-grant universities that all States disagree with the final numbers and particularly the methodology and the method of gathering the data and some of the economic philosophies and models that they use, rather than actual accounting data. Cost of production is really an accounting measure rather than economic philosophy and models.

I met with Senator Breaux's staff and Senator Johnston's staff today, and they are in the process of drafting a letter to the Secretary as well as this committee, bringing to your attention the final draft position of the land-grant universities and requesting this committee and also the Secretary to address the problems.

There have been at least two meetings prior to the report between our economists and ERS, and this report would not have come forward had the differences been reconciled. But unfortunately they were not reconciled. And so we are taking the next step with professional ag economists in five different States. And I think this is the first time we have had any group of economists to agree on any position, and I think it's a monumental step forward for the industry.

We don't want to create animosity. We want solid numbers that will reflect what the rice industry can do in producing rice so that we can have sound policy. Hopefully, you gentlemen will join with your respective land-grant universities, staff, as well as our staff and review this document. Let's try to address this problem because we believe it's serious.

I have talked to Joe Muzik, our director of the experiment station. He is an economist. He has just come back from a meeting of ag economists in Biloxi. He indicated to me that the same concern now exists in cotton and corn.

So we may be on the verge of bringing something to this august body's attention that is very important in the direction we're going as far as total ag policy.

Senator COCHRAN. Thank you very much, Mr. Denison.

Mr. Chairman.

Senator PRYOR. Yes.

Senator COCHRAN. I don't have anything further.

Senator PRYOR. Are you sure?

Senator COCHRAN. Yes, positive.

Senator PRYOR. Well, we thank you, and Senator Pryor will go ahead and get back in. [Laughter.]

What are we looking at, what are we looking at here in the cost? How do we compare, let's say, 1985 with the cost of producing an acre of rice? What increase have we seen in the past 5 years? Do we have anything in the record or in any of your statements like that thus far?

Mr. DENISON. Senator, I don't think we do, and I think this is a good question to pose to the economists. You hit upon a key area, a key item that just in the last 2 months we have seen diesel prices at the farm level go from less than 70 cents to above $1 during the cold weather. They have backed off some, but you know, they still are not where they were prior to the freeze levels. Ag chemical prices are geared to petrochemical prices.

Senator PRYOR. What about machinery?

Mr. DENISON. Machinery equipment still tend to go up. I mean we are looking at $100,000 for a combine. A 150-horsepower tractor, which is probably the minimum tractor we will use in the Rice Belt, is running $60,000-plus, and if you get up in the four-wheel-drive category you're hitting $100,000.

I had the pleasure of being a part of the ERS project on wheat survey this last week, and I spent some 6 hours with their personnel, one of whom was a college professor of physics. We were talking about the impact of agriculture, and he said, "Well, I am not an economist, but everywhere I go, machinery"—and one of the questions is how old is the machine on the farm—and he said, "For machinery, the average years of use are 15 years." So he says, "This tells me that things aren't good on the farm because farmers don't generally keep equipment that long."

So I think that costs have gone up. In order to maintain some type of effective production, we have delayed purchases of equipment in order to absorb the increased cost of production. In 1985 we had cheap fertilizer prices because we were coming out of some tough years. I was buying fertilizer for $120 to $130 a ton. It's pretty hard for me to get fertilizer for less than $150 to $175 a ton today.

Diesel fuel, back when we had the crunch, you know, I could purchase diesel fuel for 50 cents a gallon. This year I don't believe I bought any diesel fuel for much less than 70 cents. So that is my cost.

Senator **Pryor**. You know, Senator Cochran, about 2 or 3 months Arkansas was honored to have—I have already mentioned the name of Mr. David Senter and the American Agriculture Movement—we were honored that they chose us for their national convention spot in Arkansas. They were kind enough to ask me to come by and say a few words. And I must be honest, I shouldn't do this in public, but I made a commitment to this fine crowd that evening that I was going to try, before all these hearings got started, to do just one hearing on cost of production—the cost of production.

This is something that many of our urban colleagues do not understand, how much, how rapidly these costs have risen. One thing led to another, and it got rescheduled and unscheduled and whatever. And we have yet to have that hearing, and I hope to do it before we really get into the serious markup of this bill.

We would ask you in your segment as producers and as millers to submit to us information on this at the appropriate time. We would really appreciate your cooperation because I think that this is something we have to talk very seriously, this subject about with respect to the administration and also to our colleagues in the Senate who might not be as sensitive to these rising costs as we are.

One other question in this line here, and I will just ask again, David Hillman has mentioned in an opening statement about the serious problem of water in the production of rice and harvesting and growing of rice, producing rice in America.

I am concerned about this. We have seen that we—I don't want to say you—but we have also seemed to have sort of neglected this subject. I have legislation that we are working on now which would allow a water storage program and any land that you say might set aside or take out of production of rice and put in water storage, that that would be counted toward your set-aside program.

Congressman Anthony, and others, on the House side have talked a great deal about this, and I think they have introduced something. Ours is a little different approach.

Do you have any comments on that, David, or any of the rest of you, on this matter?

Mr. **Hillman**. Senator, as you know, in Arkansas the Soil and Water Conservation Commission has just adopted the State water plan. And in this State water plan, the main objective is to ensure more use and better use of our surface water. And the current regulations that we have on wetlands has about stymied that. So I think that your provisions of using set-aside to store water is a very good one.

One of the concerns that I have is the increased use of ground water, it needs to be saved for future generations for their use, for my grandkids. I like to make that speech. So I think that anything we can do to encourage the use of surface water for our rice production would be good.

Senator **Pryor**. Do you advise us—be honest with us—do you advise us to put a thing like this, say, a water section in there or a set-aside section that you store ground water there, surface water, do you advise us to put this in the 1990 farm bill? Is that the appropriate vehicle for it, or should this be a separate piece of legislation?

Mr. **Hillman**. I would say that I am a farmer, not a politician, and I would leave that up to the politicians. [Laughter.]

Senator **Pryor**. Well, we are politicians, but we are not very good farmers—and sometimes not very good politicians. But any comment that you have ultimately you would like to submit for the record on that, I think this is going to be one of the fastest-growing concerns in the rice industry, and I know all of you are sensitive to it.

Mr. **Hillman**. Let me say it this way: We need it; we need that provision. And wherever you decide that it would be a good place to put it, we would be for it.

Senator **Pryor**. I like what Mr. Montna has said in his statement a while ago, Senator Cochran—and I believe it was you that said it—that "farmers are not only producers, we are consumers, and as a result we care about the land."

I have always thought that our agriculture interests, when they talk about environmentalists, I think that you are in fact environmentalists. You have to live and make your living from this soil that the good Lord has given us. So I know that some of the tough areas of this debate in 1990 are going to be with conservation and environmental issues, and I know that all of you are sensitive to that.

So around this table we are going to have some pretty hot discussions when the time comes, and no one will be surprised by that.

Thad, do you have any further questions?

Senator **Cochran**. Mr. Chairman, just to thank you for a good hearing. I think you have organized a very good hearing.

Senator **Pryor**. Well, I think this has been a very good meeting.

Once again, we are very proud that the millers and the producers are there side by side and shoulder to shoulder, and I know that RMA is supposed to stand for Rice Millers' Association. I would like to apply it across the board and say RMA, in my opinion, stands for the "right mental attitude" of the rice industry. [Laughter.]

That is demonstrated today by these gentlemen coming together and uniting forces, realizing that we all have one thing in common, and that is to produce the best bill that we can.

I can assure you that Senator Cochran and I don't have all the solutions or the answers, but I can say to you that our interests are going to be on your side, and we may not produce exactly, exactly the legislation you want, but we are going to do our dead-level best to try and to try to produce a piece of legislation that will mean a greater net income to the rice producer, the farmer, the miller, the rice industry, but what is best for our country in agriculture and economic policy. So we thank you.

We will include in the record the prepared statement of Mr. Harold Furman and Mr. Richard L. Spees, Department of Foreign Trade, Ministry of Commerce, Royal Government of Thailand; and the prepared statement of Mr. Ronald Anderson, president of the Louisiana Farm Bureau Federation.

[The prepared statements of Mr. Furman and Mr. Spees and Mr. Anderson follow:]

STATEMENT BY THE
DEPARTMENT OF FOREIGN TRADE
MINISTRY OF COMMERCE
ROYAL GOVERNMENT OF THAILAND

BEFORE THE
SENATE AGRICULTURE COMMITTEE

MARCH 5, 1990

SUBMITTED BY:

HAROLD W. FURMAN II
RICHARD L. SPEES

COUNSEL FOR THE DEPARTMENT OF FOREIGN TRADE
MINISTRY OF COMMERCE
ROYAL GOVERNMENT OF THAILAND

This testimony presents the views of the Royal Government of Thailand on United States rice policy and discusses some ideas it has on modifying the rice provisions of the 1985 Farm Bill to reduce the negative impact they pose to the Thai rice industry.

Thailand has a long history of close diplomatic and economic ties with the United States. The first treaty of Amity and Commerce was signed in Bangkok on March 20, 1833. During the American Civil War, the King of Siam wrote to President Lincoln offering to furnish the Union troops with trained elephants. The offer was declined. Thailand was never occupied by a European power, the U.S. was the first nation to break free of European domination and the two free nations grew together.

Today, Thailand and the U.S. are working together on a number of important issues such as efforts to suppress the illegal drug trade and efforts to resettle refugees from Southeast Asia. The U.S. Navy regularly calls at Thai ports. Trade is growing and U.S. investment in Thailand is significant.

While bilateral frictions exist, both countries share the common goal of enhanced free trade. Thailand's position on agricultural trade in the Uruguay negotiations is compatible and consistent with the U.S. position. Thailand is a founding member of the Cairns Group. The Government of Thailand does not subsidize rice exports and, indeed, until recently, taxed rice exports. At the same time, the U.S. rice program is a targeted export program which undermines the U.S. position in the GATT talks, distorts the world rice market to the detriment of U.S. and Thai farmers as well as the U.S. taxpayer. The Government of Thailand desires to work with the U.S. Government to amend the program to increase farm income in both countries.

The Thai rice industry is a major contributor to the nation's economy. Rice exports accounted for over 8 percent of Thailand's 1988 foreign exchange earnings. Over 20 million people make their modest living from rice production. These are mostly small farmers with marginal incomes that average $207 per year. Their situation is further threatened by the fact that the Thai Government does not have the resources to protect our farmers from the vagaries of the world market as you do. Any drop in world rice prices is automatically passed back to the farmers. Thai rice exporters have to compete for world markets without the aid of export subsidies or other government assistance.

Thailand is the largest exporter of rice in the world market. The United States is the second largest exporter. Together, in 1988, those two countries made up 58 percent of the total world market. Unilateral actions by either Thailand or the United States that affect the world price have an immediate direct impact on the other country. It is not in the interest of Thailand nor of the United States to adopt any policy that could depress or destabilize the world rice price. Instead, it is in the interest of both countries to follow policies that support the world price and provide economic benefits to rice farmers.

Unfortunately, the Thai Government believes the policies adopted in the 1985 Farm Act were counterproductive to the goals of maintaining a strong world rice market. In 1985 and 1986, the marketing loan program, along with the authority of USDA to establish a world price for rice, encouraged the U.S. producers to clear out their accumulated stockpiles by dumping rice on the world markets at greatly reduced prices. This was accomplished when USDA set the prices low enough to distort export markets. The marketing loan protected the producers from the impact of selling rice at cut rate prices.

As mentioned previously, Thailand has little capacity to withhold rice from the world market once it is harvested. It must export its surpluses at whatever the world price. As the U.S. depressed the world prices in the mid 80's, Thailand was forced to accept the reduced price. Purchasers took advantage of the situation by pushing all producers to reduce their prices further. The U.S. responded by further reducing the USDA set price. This downward spiral caused great hardship on the Thai economy, and there were political ramifications.

In 1988 and 1989, the situation improved. The U.S. stockpiles were depleted at a great cost to the American taxpayer. More importantly, adverse weather conditions caused poor rice harvests in several rice consuming nations, most notably China and India. The world price rose above the marketing loan price and subsequently rose much further. Income of rice producers in both countries went up. However, the worldwide crop harvested in late 1989 was excellent. The demand for rice imports in several countries is down just as the quantity of rice available for export has gone up. By some estimates, the worldwide reduction in demand may total one million tons and the increase in supply may total another million tons -- a total swing of a staggering two million tons in one year. The world price has already dropped below the U.S. marketing loan price. Unless changes are made in the U.S. rice program, another downward spiral of the world price will be difficult, if not impossible, to avoid.

Ironically, it appears that the marketing loan has not been effective in expanding the U.S. share of the world rice market. The U.S. has, on the average, exported between 2 and 2.5 million tons of rice both before and after the implementation of the marketing loan program. The only effect of the program was to substantially lower world rice prices which resulted in increasing the cost of the rice program to U.S. taxpayers by $886 million.

In an ideal world, Thailand would like to see the marketing loan provisions eliminated or made optional as is the case with corn and wheat. In order for U.S. rice exports to remain competitive, the loan rate should be flexible and allowed to reflect world market conditions as is done with wheat and feed grains. These changes would bring the rice program in line with the U.S. position at GATT.

Short of these, there are two areas where actions can be taken to mitigate the adverse impact of the marketing loan provision on Thailand. First would be to provide more transparency to how the world price is calculated by the U.S. Department of Agriculture. It is essential for the Department to clearly outline its methodology in calculating world prices. In this way, accurate assessments of the validity of the determined price can be made.

One example of the difficulties caused by the lack of transparency is the problem of comparing quality. Rice is not a homogeneous product. There are substantial differences in taste, texture and flavor between even the highest qualities of rice. Yet, the Thai Government is concerned that the Department of Agriculture equates the highest quality of U.S. rice with Thai rice when it determines the world price.

Thailand would like to see a formal working group established of U.S. and Thai rice marketing technicians who would meet periodically to exchange information on all the factors that impact on world rice prices. It would appear to us that since both the U.S. and Thailand account for approximately sixty percent of world rice trade, the two countries should be working together to avoid over subsidizing U.S. rice exports. It is Thailand's impression that the USDA is slow to react to changing world market conditions when calculating the world rice prices. This leads to unnecessary distortions.

Secondly, the Government of Thailand believes that serious thought needs to be given on how the acreage reduction program (ARP) is implemented. It makes little sense that the United States has adopted an arbitrary fixed carryover target of 30 million CWT as the principal basis for setting rice ARP levels. This year, for example, there was no reason to lower the ARP level, at considerable increased budget cost, when world exportable rice supplies were up one million tons over last year and world import demand is forecast to be down one million tons. If anything, the ARP level should have been increased but instead was decreased simply to reach an arbitrary carryover level. There is no logic in taking government actions to increase U.S. rice production when world import demand is down, exportable supplies are up and world prices are declining. It even makes less sense to produce more rice for which higher export subsidies will be paid to move it into world markets thus disrupting world markets even more. Looking at it strictly from a business standpoint, the USDA economic analysis shows that the U.S. would save more by raising the ARP than can be gained from increased exports resulting from a lower ARP.

In conclusion, the Government of Thailand hopes that the Committee will take into account these views when drafting new farm legislation. What Congress does in the Farm Act will make a big difference to both nations' rice industries. As a good ally of the United States, at a minimum, consideration must be given to modifying the current rice program to mitigate its potential adverse impact on Thailand.

Thank you.

TESTIMONY

TO

THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

AGRICULTURAL PRODUCTION AND STABILIZATION

OF PRICES SUBCOMMITTEE

WASHINGTON, D. C.

MARCH 5, 1990

SUBMITTED BY RONALD ANDERSON, PRESIDENT
LOUISIANA FARM BUREAU FEDERATION

Mr. Chairman, and members of the Committee, my name is Ronald Anderson, and I serve as President of the Louisiana Farm Bureau Federation. I am a dairy farmer from Ethel, Louisiana, where I also produce soybeans, corn, and wheat. Thank you for the opportunity to submit to the committee the views of the Louisiana Farm Bureau Federation (LFBF) concerning proposals to be considered for incorporation in the 1990 Farm Bill.

It is the opinion of LFBF that the 1985 Food Security Act has generally accomplished its three major objectives: stabilizing the financially stressed farm economy, enhancing export positions for U.S. farm products, and preventing the buildup of surplus stocks.

Market-oriented farm policy should allow farmers to take maximum advantage of market opportunities at home and abroad without government interference and encourage needed adjustments in the use of resources. We support the direction of the Food Security Act (FSA) of 1985 and are opposed to modifications in the program that would change that direction away from the market-oriented goals of competitive loan rates, voluntary stock reduction programs and income supplements as farmers move toward a market-based agriculture. It is the consensus of LFBF that the direction of the 1990 Farm Bill should contain provisions and goals similar to the 1985 FSA.

While Farm Bureau supports appropriate actions to be taken by Congress to address the budget deficit, we strongly believe that farmers have already born more than their fair share of federal budget cuts and should not be abused by any future proposed budgets. Agriculture has already taken substantial cuts during the prior administration. Producers of the respective commodities cannot sustain any further drastic cuts in target prices and loan rates.

In 1988 the former Secretary of Agriculture chose to use his discretionary authority as provided to him in the present farm bill and opted to maintain program payment yields (PPY) at the 1986 levels for the duration of the 1985 act. We recommend that producers have the option of participating in a farm program using either the 1986 level or the average of the five years preceding the year in question, excluding the year in which such yield was the highest and the year in which such yield was the lowest. This is being recommended to accurately reflect the productive potential of the land in question.

LFBF is opposed to the Administration's proposal regarding "planting flexibility " and other flexibility concepts whereby non-program crops would be allowed to be planted on a portion of a program crop's base. In Louisiana, many soybean producers have very few, if any, program crop base acres. These farmers receive no support price benefits. Farm Bureau believes that all commodities are interrelated and any change in supply, demand, or price of one affects the others. Program crop policies should not be developed at the expense of non-program crops and other commodities.

U. S. agriculture must continue to figure out ways to compete in growing world markets. This cannot be done if we are simply going to use lower levels of input in order to maintain current levels of output. If the concept of "low input agriculture" is to serve as a guide to practice, it must include the use of technology and practices that both sustain and enhance productivity. You cannot prematurely press for adoption of low input agricultural practices before either the science has been developed or the technology is available. The research on low input agriculture needs to define what is biologically feasible without being excessively limited by present economic constraints. If low input agricultural practices do not contribute to higher levels of profitable output, farmers and consumers will both lose.

Regarding the Rice Title of the 1990 Farm Bill, LFBF supports the maintenance of the Rice Title of the 1985 FSA. We believe the 1985 FSA has helped tremendously to bring the U. S. rice industry to a more internationally competitive position.

The rice industry is very important to Louisiana's economy. In addition to the purchasing of various inputs, which helps the rural economy of Louisiana to sustain itself, there are numerous jobs and economic activities supported by the rice industry of Louisiana. In 1988 Louisiana's rice crop had an estimated gross value of $193.2 million. Processing was estimated to have an added value of approximately $58 million, resulting in a total value of $251 million. With each dollar turning over in our state's economy 2.75 times, the total impact of the rice industry to Louisiana's economy was approximately $690 million. The rice industry's positive contribution to the economy of Louisiana is substantial and is extremely important to the economies of many small towns and rural agricultural communities.

The gross value of $193.2 million for the 1988 rice crop is an indicator of the commodity's contribution to economic activity, but is not an indicator of farm profits. Production costs cut heavily into profits. Louisiana rice farmers are least able to face further reductions in support levels. Because of variable weather conditions relative to the Gulf Coast, high disease pressure, and other factors beyond producer control, rice yields are lower in Louisiana than in other areas of the United States. Since Louisiana's per-unit cost of production is relatively high, farmers cannot afford, nor does LFBF support, any further reduction in support levels. We will continue to oppose the use of USDA, ERS cost of production data in adjusting target and loan levels since this information is currently incorrect and does not show what it actually costs to produce rice.

The rice producers of Louisiana are working to solve production problems and increase the demand for rice both at home and abroad through the farmer funded rice checkoff. Production research in weed and disease control programs and in breeding programs for higher yielding and improved milling rice varieties, and the promotional programs to expand and develop new markets for rice will undoubtedly help producers lower their production costs and expand sales in the future. However, these are long-term projects which will benefit the entire rice industry over time. Until this time, we need the assistance of a viable farm program which will continue to provide an income safety net in the form of adequate target prices and loan levels.

We believe the marketing loan is the main provision of the 1985 act which has made U. S. rice competitive in world markets, and we believe it must be continued. We also support the maintenance of a viable PL 480 program, as well as the maintenance of other government assisted export programs. These programs must also receive and maintain adequate funding if they are to be effective.

All provisions enacted regarding payment limitation plans should be structured to facilitate the efficient enactment of and to allow the full participation in the 1990 farm bill. We recommend that persons be considered as "actively engaged in farming" as determined by reasonable criteria. Just as landlords who receive a crop share rent are considered actively engaged, we believe waterlords who receive a crop share rent should also be considered actively engaged. We oppose the restriction of program benefits based on adjusted gross or gross income criteria.

We support the continued use of stock levels in setting the rice ARP, and we do not support the use of a stocks-to-use ratio. If a stocks-to-use ratio is implemented, it should not be greater than twenty percent and should be determined on a moving average and not solely on projected carryover stocks and use.

Regarding environmental concerns relating to wetlands, we are opposed to the new wetland definition which includes many prior converted wetlands. We are also strongly opposed to obtaining permits for the construction of rice levees. Rice levees are a part of normal farming practices and should not require a permit.

LFBF supports the determination of the national average rough rice price base on first point final sale settlements made during the first five months of the crop year. We are opposed to changing the average to include 12 months. If the average is changed to include 12 months, farmers must receive an interim deficiency payment. If the final deficiency payment is delayed further, it will add to farmers' cash flow problems. We would also ask that the World Market Price (WMP) for rice continue to be calculated on confirmed sales.

SUMMARY

LFBF supports the Rice Title of the 1985 Food Security Act and believe that it has been very effective in restoring the U. S. rice industry and its share of the world rice market. We believe in and support the competitive pricing and income support received by the 1985 FSA's market orientation and assistance provided by the target price system and the marketing loan provision. It is our opinion that the Rice Title of the 1990 Farm Bill should maintain the provisions and goals of the present act.

On behalf of the Louisiana Farm Bureau Federation I would like to thank you for the opportunity to express these views for your consideration.

Senator **Pryor**. Our meeting is adjourned. Thank you very much.

[Whereupon, at 3:36 p.m., the subcommittee recessed, to reconvene at 9:30 a.m., Tuesday, March 6, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PATRICK J. LEAHY, VERMONT, CHAIRMAN

DAVID H. PRYOR, ARKANSAS
DAVID L. BOREN, OKLAHOMA
HOWELL HEFLIN, ALABAMA
TOM HARKIN, IOWA
KENT CONRAD, NORTH DAKOTA
WYCHE FOWLER, JR., GEORGIA
THOMAS A. DASCHLE,
SOUTH DAKOTA
MAX BAUCUS, MONTANA
J. ROBERT KERREY, NEBRASKA

RICHARD G. LUGAR, INDIANA
ROBERT DOLE, KANSAS
JESSE HELMS, NORTH CAROLINA
THAD COCHRAN, MISSISSIPPI
RUDY BOSCHWITZ, MINNESOTA
MITCH McCONNELL, KENTUCKY
CHRISTOPHER S. "KIT" BOND,
MISSOURI
PETE WILSON, CALIFORNIA
SLADE GORTON, WASHINGTON

United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

March 19, 1990

The Honorable Jim Sasser
Chairman
Committee on the Budget
United States Senate
Washington D.C. 20510

Dear Mr. Chairman:

This letter provides the view of the Senate Committee on Agriculture, Nutrition and Forestry regarding the 1991 fiscal year budget cycle. These views are provided in response to both section 301(d) of the Congressional budget Act of 1974 and your letter dated February 6, 1990.

The Committee will deal with one of its most important actions of the decade in debating, developing and hopefully passing the 1990 farm bill. Obviously this omnibus legislation will affect outlays on nearly every topic under the Committee's jurisdiction. The farm bill will have a substantial effect on outlays not only in fiscal year 1991, but in every year through fiscal year 1996 or 1997 as well. The Committee plans to enact this legislation by the August recess.

As in past years, this letter is arranged by major program areas that will be the focus of Committee activity this year. In addition to commodity programs, the Committee will also concern itself with nutrition, crop insurance, food safety, conservation, trade, forestry, research, rural development and other topics.

Commodity Programs

Spending on agricultural programs has fallen significantly in the past three years. This decline is due to a number of factors, including significant Committee action to reduce program spending.

In last year's views and estimates letter, the Committee stated:

> "The Congressional Budget Office projects declines of nearly 23% or $2.9 billion in fiscal year 1990 compared to fiscal year 1989 outlays. Should CBO's projections come true, spending on agricultural programs will have fallen more than 62% from fiscal year 1986 levels."

Current projections by CBO on 1990 spending levels have fallen even further than last January's estimates. CBO now projects that fiscal year 1990 spending will fall to $7.5 billion - only 29% of the spending in fiscal year 1986.

Spending for fiscal year 1991 is now projected to increase, due in part to the Administration's use of certificates to make payments under the 1989 disaster assistance legislation, as well as a projected return to more normal growing conditions. But CBO's projections for the next five years indicate that spending on commodity programs should stabilize around the $10-$12 billion level.

The Committee also has contributed significantly to deficit reduction through reconciliation action over the past three years. The table below shows the savings from the past two reconciliation bills in which the Committee cut farm program spending by more than four billion dollars.

Agriculture Committee Budget Savings
($ millions)

	FY88	FY89	FY90	FY91
'87 Reconciliation	$972	$1,513	$336	---
'89 Reconciliation	---	---	$928	$400
Total	$972	$1,513	$1,264	$400
				$4,149

Spending on agricultural programs has also declined as a result of changing climatic conditions and higher farm prices. In February 1987, CBO projected that outlays for fiscal years 1990-1992 for the commodity programs would total $54.0 billion. In their preliminary baseline for this year they now project $31.4 billion for the same time period -- a $22.6 billion decrease.

The combined effect of the 71% decline in farm program spending since 1986 and previous Committee savings in reconciliation bills have brought farm program spending down to a more sustainable level. In fact, with current projections, farm program spending as a percentage of total federal spending will be significantly below the 1970s when the share of federal spending devoted to agriculture was at an historic low. In the 1970s, a decade considered by most analysts to be the period of strongest real farm income and lowest federal farm program cost in recent history, commodity program spending was 1.4% of total federal outlays. For FY 1991-93, even though absolute farm program costs are above 1970 levels, under the baseline commodity program costs will average only 0.8% of federal spending.

In considering commodity program spending levels, we must ensure that these levels not harm the agricultural sector, nor should they undermine the U.S. position in the multilateral trade negotiations currently underway in the Uruguay Round of the General Agreement of Tariffs and Trade. The Committee does not want to send the erroneous signal to competing countries that the U.S. is prepared to unilaterally disarm in agriculture in advance of any agreement in GATT.

Crop Insurance

The Committee will also consider, as part of the farm bill, legislation to reform the crop insurance and other disaster assistance programs. The Committee disagrees with the Administration's budget estimate which suggests that $600 million in savings can be achieved by termination of Federal Crop Insurance in fiscal year 1991. Most crop insurance polices that would affect fiscal year 1991 outlays are already in place. In fact, actuary tables for some 1991 crops have already been sent to producers. The Committee recommends continued funding for crop insurance for FY 1991 at current levels, pending its' consideration of crop insurance reform and alternatives.

Rural Development

Rural development will be a top priority of our Committee this year. As compared to metropolitan counties, many rural counties have higher unemployment rates, 1,000 rural counties have rates in excess of 9%, per capita income averages 30% lower, poverty rates 35% higher, rural education and business activity is lagging in some areas. The Committee was very pleased by President Bush's comments, "America's economic recovery will not be complete until rural America's economic recovery is complete."

The Senate passed bipartisan rural development legislation last year. House action on rural development legislation is expected shortly. The Committee expects to complete the legislative process this year to begin the revitalization of rural America which may involve additional first year funding of up to $500 million.

The Committee strongly feels the need to bring rural America back into the economic mainstream. The reductions proposed in President Bush's budget rural programs could be inconsistent with the rural development efforts of Congress.

Nutrition Programs

The Committee was pleased to have you, and your ranking minority Member, Senator Domenici, recently address the Committee on the nutritional needs of Americans -- especially America's children.

Provisions of the nutrition bill that both of you introduced will become an important aspect of the farm bill.

In recent years our Committee has worked very closely with the Budget Committee on nutrition issues, and we look forward to continuing the process.

The Temporary Emergency Food Assistance Program (TEFAP) is an important nutrition program. Under the "mandatory purchase" provisions of the Hunger Prevention Act, USDA will purchase, this fiscal year, 72 million pounds of peanut butter, 30 million pounds of canned pork, 38 million pounds of beans and 7 million pounds of raisins to distribute to the needy.

This will be distributed along with commodities in surplus: 144 million pounds of flour, 48 million pounds of cornmeal, 72 million pounds of butter, and 41 million pounds of honey.

Up to 15 million Americans rely on that program. Unfortunately, CBO has not included renewal of that program in its baseline. It is important that your Committee provide funds to continue TEFAP, through the life of the farm bill, at least at its current level of $120 million per year. Without a change in the baseline or an increase in the Committee's spending allocation, other nutrition programs would have to be cut to pay for the necessary extension of TEFAP. In addition, we ask your help in correcting this baseline problem for the future.

This same baseline problem exists for the "soup kitchen" provision in the Hunger Prevention Act. That section requires USDA to provide $32 million worth of nutritious foods, in FY 1991, for distribution to America's homeless. That program, which does not expire until next year, nonetheless should be extended at least at its current level through the life of the farm bill. Again, we ask that in your reallocation to our Committee that you adjust the baseline or allocate spending for the soup kitchen extension, and we ask your help in correcting this problem for the future.

Many of the provisions in your bill focus on food stamps. As you know, the food stamp program represents one of America's best child nutrition programs. Over eighty percent of its benefits go to families with children. We request additional funding for food stamp improvements of up to $500 million (FY 1991), $800 million (FY 1992) and $950 million (FY 1993).

The bill that Senator Domenici and you introduced addresses improvements in that program.

The current food stamp excess shelter deduction cap, for rent, utilities, and other housing costs, is $177 per month. Your bill would uncap that deduction.

Another change that you propose concerns increasing basic food stamp benefit levels.

Your bill provides for a disregard of the first $50 of child support per month for families on Aid to Families with Dependent Children who are also on food stamps.

The bill increases the vehicle exclusion from its current level of $4,500 to $5,500 and then indexes it to inflation. That is consistent with a recommendation included in President Reagan's Task Force on Food Assistance in 1984.

The bill also provides for funding the Nutrition Assistance Program (NAP) in Puerto Rico at the current level of services. The Committee intends to examine the need for additional increases.

We appreciate your interest in these important nutrition programs. We look forward to discussing your recommendations in the Agriculture Committee in the context of the budget resolution.

We were pleased to hear of your continuing support for increased funding for the Women, Infants and Children program. We support increasing WIC funding, consistent with both of your recommendations, on an annual basis above current services levels.

We will continue to support effective and strong nutrition programs. Of course, we support funding for the reauthorization of the food stamp program, the Nutrition Assistance Program, the Commodity Supplemental Food Program, the Food Distribution Program on Indian Reservations and the Temporary Emergency Food Assistance Program.

Conservation

The Committee also believes that the Conservation Reserve Program will be continued in a modified form in the future. The continuation of the program will be necessary to achieve necessary environmental reforms in the agricultural sector. The budget resolution should reflect this reality.

Forestry

Over a third of the Senate has indicated its support for the President's Tree Planting Initiative. The Administration has stated that $175 million will be needed in 1991 to begin a program that will meet this ambitious goal. This program has broad bipartisan support and the allocation for discretionary spending should be developed in a manner that will accommodate this initiative.

In addition to the Administration's tree planting initiative the Committee plans to include a forestry title in the 1990 Farm Bill. The Forestry Title will expand assistance programs for landowners of existing forest lands and should provide for rural development as well as environmental health.

The Committee would like to restore some balance between public and private land management programs by expanding authorizations for private forest management programs by up to $100 million. The Committee feels that we can no longer ignore the needs of private forest land owners.

Farmers Home Administration

The Administration has proposed to reduce significantly direct lending in the Farmers Home Administration (FmHA). The Committee is unlikely to approve these changes. The Committee intends to address legislatively several issues to strengthen FmHA's lending and supervision problems to minimize future budget concerns.

Research and Extension

A number of the land grant colleges and universities as well as the National Research Council are now engaged in an effort to significantly increase new funding for research to strengthen the agricultural, food and environmental system. This research effort will focus on six main areas:

plant systems,
animal systems,
nutrition, food safety and health,
natural resources and the environment,
engineering, products and processes and,
markets, trade and policy.

The Board on Agriculture of the National Research Council has requested $500 million to fund this effort. The Committee feels that this research effort deserves support. While recognizing that obtaining the level of funds requested by the Council will be difficult, particularly in the first year, the Committee suggests that a path of $150 million in fiscal year 1991, $275 million in fiscal year 1992 and $400 million in fiscal year 1993 should be seriously considered.

Conclusion

The Committee will devote considerable effort this year toward the development of the 1990 farm bill. This legislation will cut across all areas of the Committee's jurisdiction from commodity programs to nutrition, from credit programs to grain quality.

The Committee recognizes the need to continue its efforts to reduce federal spending and the budget deficit. We also have a responsibility to develop a viable, long term agricultural policy. We will work with the Budget Committee to achieve these goals.

Sincerely,

Richard G. Lugar
RICHARD LUGAR
Ranking Minority Member

Patrick Leahy
PATRICK LEAHY
Chairman

PREPARATION FOR THE 1990 FARM BILL

Sugar

TUESDAY, MARCH 6, 1990

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room SR-332, Russell Senate Office Building, Hon. David H. Pryor, chairman, Hon. Kent Conrad, presiding.

Present or submitting a statement: Senators Conrad, Baucus, Kerrey, Cochran, and Boschwitz.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. This hearing will come to order. This hearing before the Senate Committee on Agriculture, Nutrition, and Forestry, the Subcommittee on Agricultural Production and Stabilization of Prices, is a hearing in preparation for the 1990 farm bill and focuses specifically on sugar.

I would like to thank my colleague from Arkansas, Senator Pryor for asking me to chair this hearing this morning.

It is a pleasure to see Mr. Gardner, the Assistant Secretary for Economics for the U.S. Department of Agriculture and Ambassador Katz, Deputy U.S. Trade Representative, here this morning. I welcome you to this hearing. We look forward to hearing your testimony on what the administration thinks we should do with this program.

I also see that Pat Mahar of North Dakota is in the room today. Pat is president of the Sugarbeet Growers Association and a beet grower in North Dakota. Welcome, Pat. It is good to have you here.

I would also like to welcome our two international witnesses, the Honorable Edward Laing, Ambassador of Belize who is representing the Caribbean Basin Initiative Group. We are also honored to have Mr. Arsenio Yulo, Chairman of the Sugar Regulatory Administration of the Philippines in attendance this morning.

Let me begin by pointing out the importance of the sugar program to agriculture in this country. Direct beneficiaries of the sugar program are the 361,000 U.S. sugar growers, sugar workers, corn growers and processing companies. The economic impact of the domestic sweetener industry accounted for $18.5 billion of this country's gross national product in 1987. The United States and world sugar markets have changed significantly in the 1980's, as a result of the rising use of substitute sweeteners, new technologies, and Government policy.

The sugar program, as mandated by the 1981 farm bill, and particularly the Food Security Act of 1985, has protected sugar producers and processors from the persistently low prices of subsidized sugar in the world market. U.S. sugar production for the 1989–90 crop-year is forecast to be about 7 million tons, up about 5 percent from the drought depressed 1988–89 crop. U.S. consumption for 1989–90 is estimated to be about 8.8 million tons.

A production shortfall and some rise in consumption have raised the 1989–90 sugar quota to an annualized 1.6 million tons. The present U.S. sugar program entails no cost to the Federal Government. The United States is a deficit producer of sugar. And sugar is one of only four major commodities which must be imported into this country. Nearly all sugar producing countries intervene in the market to stabilize sugar prices and to protect their domestic sugar supplies.

For the sugar exporting countries, the United States is the only one of numerous potential markets available to most of the 39 countries. The exporting of large quantities of sugar at highly subsidized prices on the world market by the European Economic Community has, unfortunately, caused the world price of sugar to be depressed below the cost of production in the Caribbean Basin and the Philippines.

Countries that supply raw and refined sugar to the United States benefit from the premium price associated with the U.S. sugar market.

Let me point out that our sugar producers and processors have stated repeatedly that they are willing and able to compete on a level playing field. They have been strong supporters of the U.S. goals at GATT and are willing to accept a multilateral reduction in support; and, let me emphasize multilateral.

In fact, a recent study by Landell Mills of London indicates that the world equilibrium price would be only slightly different than the U.S. support level in the absence of Government intervention. American producers believe they can compete and this study provides the evidence.

Before we begin, I would like to remind all of the witnesses that we are on a very tight time schedule today. In order for Senators to have time to ask questions, it is very important that witnesses summarize their major points in a few minutes. Before we proceed to the testimony, I would like to turn to my colleague, Senator Baucus of Montana for his comments.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator Baucus. Thank you very much, Mr. Chairman. I am very interested in the sugar program, not only because it is a very important American product, but also because it is so important to my State of Montana. I had hoped to be here during the entire hearing. I am, however, managing the clean air bill on the Senate floor. We are back on that bill at 10 o'clock, so I will be unable to be here for the entire hearing. But I am very pleased, Mr. Chairman, that you are holding these hearings. I very much look forward to the results of this hearing because the program is so important.

Mr. Chairman, as you know, the Federal Government has supported the sugar industry in one way or another since the late 1800's. And for good reason.

It wanted to increase domestic sugar production, ensure stable prices, and promote efficiency.

Currently the program is working well.

In 1988, U.S. sugar production accounted for about 83 percent of the sugar consumed domestically here at home and exported. Imports accounted for almost 17 percent.

By contrast, U.S. sugar production accounted for 55 percent of consumption in 1981. And imports in 1981 were 45 percent.

In addition, U.S. sugar producers have become some of the most efficient of the world.

A recent USDA study, which you referred to Mr. Chairman, showed that of the 12 major high fructose corn syrup producing countries in the world, the United States was the lowest cost producer.

Of the 31 sugar beet producing regions around the world, the United States ranked seventh most efficient.

Of the 61 raw cane sugar-producing countries, the United States ranked 33rd.

Clearly, the program is a good one. It is achieving the goals it set out to achieve.

I know that some foreign countries would like to change our sugar program in the farm bill so they can export more of their sugar to this country.

I think that would be a mistake. We must not unilaterally disarm on this issue while the GATT negotiations are going on.

I, therefore, will oppose any major modifications to the sugar program until those negotiations have concluded.

Only if other countries agree to change their sugar programs should we even consider changing ours.

Mr. Chairman, I look forward to hearing testimony from our witnesses on this important program. This will be very helpful as we begin to write the strongest possible farm program which will put more money in the pockets of American producers and will help to increase our exports, as much as possible, worldwide. Thank you, Mr. Chairman.

Senator CONRAD. Thank you, Senator Baucus. We know that you are managing the clean air bill on the floor, and obviously that is a top priority and something that you cannot delegate to someone else. So we understand if you have to leave and manage the bill on the floor.

[Pause.]

Ambassador Katz and Secretary Gardner welcome. Good to have you here. We appreciate your coming. I am told that former Representative Tom Abernathy is in the audience. Representative Abernathy served 30 years in the House of Representatives and served on the House Agriculture Committee representing Mississippi's

First District. I want to welcome him here this morning as well. Good to have you here, Congressman.

Again, we have an ambitious schedule before us this morning. I would hope that all witnesses would attempt to summarize their testimony. The full written testimony will be made part of the record and with that let us proceed. First Ambassador Katz, welcome, and if you would proceed.

STATEMENT OF AMBASSADOR JULIUS L. KATZ, DEPUTY UNITED STATES TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador KATZ. Thank you, Mr. Chairman. I will summarize my statement.

INTRODUCTION

I appreciate the opportunity to discuss with you and other members of the subcommittee the continuation of the U.S. sugar price support program in light of recent actions taken under the General Agreement on Tariffs and Trade (GATT). You requested that I address options to bring our policy into GATT compliance and the effects of these options on U.S. producers, processors, users, and the international community.

U.S. sugar policy is mandated by the provisions of the Agricultural Act of 1949, as amended by the Food Security Act of 1985. The Secretary of Agriculture is required to support the domestic price of sugar at levels substantially above prevailing world market prices and to run the program at no net cost to the Government.

To do this, sugar imports have been restricted by what is generally known as the headnote quota under the authority of title I of the Tariff Act of 1930, as amended by the Omnibus Trade and Competitiveness Act of 1988. As a result of the program, U.S. imports have fallen substantially, domestic consumption has dropped, and domestic production has increased. The burden of adjustment has fallen completely on imports.

GATT CHALLENGES TO U.S. SUGAR POLICIES

In 1988, Australia initiated a challenge in the GATT to the U.S. headnote quota. Australia claimed that we could not impose an otherwise GATT-illegal quota as part of a tariff concession. Our position was that we had reserved the right to do so when we made the tariff concession years ago. The panel that reviewed the case essentially agreed with Australia and concluded that the quota contravenes our GATT obligations and should be eliminated or made consistent with the GATT.

It is important to note the relationship of the GATT finding to the sugar provisions of our domestic farm law. The panel did not examine the sugar price support program mandated in the 1985 farm law, nor did it address the U.S. price support level for sugar. The GATT panel considered only the legality of the headnote quota, and found only that the headnote quota itself was GATT-inconsistent. The GATT panel finding does not require that the domestic price support program be revised, but rather that our implementation of restrictions on sugar imports be brought into conformity with the GATT.

LEGAL AUTHORITIES TO BRING U.S. IMPORT POLICY INTO GATT CONFORMITY

We have two authorities available to do this. First, under the authority of the Tariff Act of 1930, as amended, a tariff rate quota could be established. The minimum duty could be applied to a specified quantity of sugar which is equivalent to the difference between U.S. production and demand. A secondary and higher rate of duty could be proclaimed for any additional quantity. This would be consistent with the GATT, maintain the desired domestic price, and permit the program to be run at no net cost to the Government.

The other authority we have is section 22 of the Agricultural Adjustment Act of 1933, as amended. This permits imposition of either an import fee of up to 50 percent ad valorem or an import quota of a minimum of 50 percent of imports during an unrestricted representative period. The fees we used for our import regime would be GATT consistent because the tariff is not bound. The likelihood of a forfeiture of sugar to the CCC is increased, however, if world prices fall below approximately 13.22 cents.

If imports were restricted by a section 22 quota for which we have a GATT waiver, not less than 2.3 million short tons would have to be permitted entry. This is roughly 50 percent of the average U.S. imports between 1975 and 1981, the representative time period used for sugar actions. Under current circumstances, it would be difficult to meet the no net cost provision if imports reached this level.

CONCLUSION

The question before you today is what sugar provision should be included in the 1990 farm legislation in light of the GATT ruling that our import quota is illegal.

As I have pointed out, the GATT ruling deals not with the price support program, but with the manner in which imports are restricted.

The legal authorities available to the President to bring our import quota into GATT compliance include the tariff-rate quota. Producers, processors, users and exporting countries would be affected by the tariff-rate quota, just as they are today by the absolute quota, which was found to be illegal.

The administration is reviewing these options and will consult with the Congress and all elements of the private sector prior to making a decision on how to proceed.

Mr. Chairman, that concludes the summary of my statement. I would be pleased to answer any questions you might have.

[The prepared statement of Ambassador Katz follows:]

TESTIMONY OF AMBASSADOR JULIUS L. KATZ

DEPUTY UNITED STATES TRADE REPRESENTATIVE

BEFORE THE SUBCOMMITTEE ON

AGRICULTURAL PRODUCTION AND STABILIZATION

COMMITTEE ON AGRICULTURE

U.S. SENATE

MARCH 6, 1990

Mr. Chairman, I appreciate the opportunity to discuss with you and other Members of the Subcommittee the reauthorization of the U.S. sugar price support program in light of recent actions taken under the General Agreement on Tariffs and Trade (GATT). You requested that I address options to bring our policy into GATT compliance and the effects of these options on U.S. producers, processors, users, and the international community.

U. S. sugar policy is mandated by the provisions of the Agricultural Act of 1949, as amended by the Food Security Act of 1985. This requires the Secretary of Agriculture to support the domestic price of sugar at levels substantially above prevailing world market prices and the President to use all available authorities to operate the program at no net cost to the government.

To fulfill this legislative mandate, imports of raw and refined sugar have been restricted. These restrictions (generally referred to as the headnote quota) have been imposed principally under the authority of title I of the Tariff Act of 1930, as amended by the Omnibus Trade and Competitiveness Act of 1988. This authority is found in Additional U.S. Notes 2 and 3 to Chapter 17 of the Harmonized Tariff Schedules of the United States. Previously, these restrictions had been implemented by the President in order to carry out the same headnote contained in the U.S. schedule of tariff concessions negotiated during earlier GATT rounds.

GATT Challenges to U.S. Sugar Policies

Over the past two years, U.S. sugar policy has been addressed in two different dispute settlement panels established under the auspices of the GATT. In 1988, Australia initiated a challenge in the GATT to the U.S. headnote quota. Australia's claim was that the United States could not establish or maintain quotas---which would otherwise be GATT-illegal---as a qualification of a tariff concession. The United States' position was that we had properly reserved the right to maintain the quota, when we made a tariff concession on sugar years ago. The panel essentially agreed with Australia and found that the only qualifications that can be attached to a tariff concession are those that are otherwise legal under the GATT. The GATT panel concluded that the headnote quota violates the GATT prohibition against absolute import quotas.

The panel's report was adopted by the GATT Council last June. The U.S. Government has an obligation to bring our import restrictions into conformity with the GATT and the panel report. We have indicated that we will do this within a reasonable period of time, as required by the GATT.

Some may be confused about the relationship of the GATT finding to the sugar provisions of our domestic farm law. In the Australian case, the panel did not examine the sugar price support program mandated in the 1985 farm law, nor did it address the U.S. price support level for sugar. The GATT panel considered only the legality of the headnote quota, and found only that the headnote quota itself was GATT-inconsistent. The GATT panel finding does not require that the domestic price support program be revised, but rather that our implementation of restrictions on sugar imports be brought into conformity with the GATT.

In a separate GATT action initiated in 1988, the European Community sought consultations with us concerning the import restrictions we maintain under Section 22 of the Agricultural Adjustment Act. In mid-1989, the EC pushed this issue forward into formal GATT dispute settlement, narrowing their focus to the Section 22 import fee on refined sugar and import quotas on certain sugar-containing products. The panel's decision was made known to the two parties involved in early January of this year. The panel report was circulated in January to all GATT contracting parties and discussed briefly at the February GATT Council session. It was not adopted at that time and will be considered at the next session on April 3. Until the report is adopted by the GATT Council, it is a restricted document about which I cannot comment further publicly except to say that its findings do not overlap with the earlier case on the headnote quota.

Legal Authorities to Bring U.S. Import Policy into GATT Conformity

The President has available two authorities which would permit administration of import restrictions on sugar in a manner consistent with both our domestic law and GATT obligations. One is provided in the Tariff Act of 1930, as amended, and is found in the headnote to the U.S. tariff schedules. This authority permits the President to apply a tariff rate to a specified quantity of sugar in a tariff-rate quota scheme. Replacing the absolute import quota currently in place with a tariff-rate quota would make our import policy GATT-consistent. The primary tariff, set at the minimum level allowed by U.S. law, could be imposed on a certain quantity of imported sugar. To comply with the no cost provision of U.S. law, the quantity would have to be equivalent to the difference between estimated U.S. consumption and production. The Secretary of Agriculture could retain the authority to modify this quantity, as necessary, to reflect market conditions. Imports could enter on a first-come, first-served basis, or the USTR could continue to allocate this quantity on a country-by-country basis. Provisions granting CBI and GSP benefits could continue for the quantity of sugar permitted to be entered at the primary tariff rate.

The President could impose a secondary tariff on any additional imports, at a level high enough to ensure compliance with the no cost provision. World sugar prices in recent years have fallen to under 3 cents per pound. In order to assure protection of the domestic support price and prevent forfeitures of sugar, the secondary tariff could be set as high as 18 cents per pound, for example. Alternatively, it could be set on a flexible basis at an amount equivalent to the difference between the world price and a level somewhat higher than the domestic market stabilization price.

The second authority available to the President is Section 22 of the Agricultural Adjustment Act of 1933, as amended. Under

Section 22, either import fees or quotas could replace the headnote quota. Use of a Section 22 fee would be GATT-consistent since the U.S. sugar tariff is not currently bound.

One effect of using Section 22 fees is that the quota premium now accruing to countries with a quota allocation would be eliminated. The increased revenue derived from the Section 22 fees would instead go to the U.S. Treasury. However, to the extent that quota premiums from the sugar program have benefitted developing countries which supply our market, this assistance would be eliminated. Section 22 fees would apply to both GSP and CBI beneficiaries. In addition, without a country-by-country allocation system, imported sugar could be purchased from any foreign source; the distribution of country shares is likely to change as the most competitive shippers gain market share.

Another constraint in using Section 22 fees is that they are limited by statute to a maximum of 50 percent ad valorem. Given the potential gap between domestic and foreign sugar prices, a 50 percent fee may not be sufficient to allow the program to be run at no net cost. If invoice values fell below approximately 13.22

cents per pound, there would be a risk of forfeiture of sugar to the CCC. Since average world prices have been below 10 cents per pound for more than 75 percent of the months in the last 8 years, this would be likely to occur in the future as well. In such an instance, U.S. producers and processors would have the option to sell sugar to the government rather than on the market. On the other hand, unless the fee is flexible, rising world prices could make the fee too restrictive and create an excessively tight domestic market.

Alternatively, the President's authority to impose Section 22 import quotas could be utilized. This action would be covered by an existing GATT waiver. Imports could be restricted to the minimum permitted under the statute: 50 percent of imports during a representative time period. We believe that the representative period would fall within 1975-81. On this basis, imports could be restricted to not less than 2.3 million short tons, equivalent to 50 percent of average imports in that period. In comparison, the current level of the headnote quota, calculated on a 12-month basis, is 1.6 million short tons. Under this scenario, foreign suppliers would retain the quota premium and be able to export substantially greater amounts to the U.S. market, which would also benefit U.S. refineries and users. However, it is likely that a substantial quantity of sugar would be forfeited; this would mean a significant net cost to the government.

From this analysis, it is evident that the tariff-rate quota option most clearly permits the Administration to implement the program in compliance with U.S. domestic law and the GATT. The effect on U.S. producers, processors, and users would be exactly the same as it is now under the current program. If the tariff-rate quota were allocated on a country-by-country basis, the effect on the international community would be the same as well.

GATT Criteria for Import Restrictions

I understand that some in the private sector are considering proposals that would use either domestic production or marketing restrictions in conjunction with an import quota. For this reason, I would like to outline for the Subcommittee the exception to the GATT prohibition on import restrictions. There are a number of strict criteria in this exception, and all of them must be met for a quota to be consistent with the GATT.

Let me point out some of the conditions that an absolute quota would have to meet:

-- Governmental measures must effectively limit domestic supplies to less than what they would be in the absence of the restriction.

-- All of the import restrictions must be necessary to the enforcement of the measure restricting domestic supply.

-- The quota products in question must be agricultural. If the domestic supply control is on sugarcane or beets, then the import restrictions must be on the "like product"---sugarcane or beets. If there is an import restriction on a downstream product, the restricted product must be in an early stage of processing, still perishable, and directly competitive with sugarcane or beets.

-- Finally, the import restriction cannot reduce total imports relative to domestic production, as compared to the relationship that would be expected in the absence of restrictions.

The last point is of particular relevance. During the period when restrictions were absent, imports supplied about 45 percent of the U.S. market. To comply with the GATT proportionality obligation, imports could not be cut back beyond their historical share in an unrestricted period. This would mean, for example, that if domestic production were limited to supplying 55 percent of estimated consumption, the marketing of domestically produced sugar would have to be restricted to 4.6 million short tons, as compared with estimated 1989 production of 6.6 million short tons. Imports could not be restricted to less than a 45 percent share, which would be equivalent to 3.7 million short tons. Alternatively, if domestic production were restricted to current levels, imports would have to be increased to at least 5.4 million tons.

Conclusion

The question before Congress now is what sugar provision should be included in the 1990 farm legislation in light of the GATT ruling that our import quota is illegal. As I have pointed out, the GATT ruling deals not with the price support program, but with the manner in which import restrictions were imposed.

As I have stated, existing authorities are available to the President to bring our import policy into GATT compliance. Using a tariff-rate quota, the status quo can be maintained, but in a GATT-consistent manner. The Administration is now reviewing these options and will consult with the Congress and all elements of the private sector prior to making a decision on how to proceed.

This concludes my testimony. I would be pleased to respond to questions you and Members of the Subcommittee have.

Senator **Conrad**. Ambassador Katz, thank you for that testimony.

First, what, in your estimation, are the chances in the current round of the GATT negotiations that multilateral reductions of Government support for sugar will be achieved?

Ambassador **Katz**. Well, it is difficult to predict that. We are, of course, going into the final stages of those negotiations. We continue to believe that we will succeed, but success is not assured at this point. What we are seeking is rather ambitious. We said that we will not settle for something that just adjusts at the margin, and we have a lot of work ahead of us.

Senator **Conrad**. Would we classify that as a nonanswer?

Ambassador **Katz**. It is the best answer that I can give at this time, Mr. Chairman. I mean, I cannot tell you with any degree of precision. I think the odds are better than even that we will succeed, but I cannot attest to that at this point.

Senator **Conrad**. All right. Let me ask you this: What has the U.S. Trade Representative done to react to the unfair trading practices of the EC regarding sugar? Let me direct your attention to the charts[5] that we have here that shows the United States, EC, and Australia sugar production in the 1960 to 1964 time period, the 1970 to 1974 time period, and the 1985 to 1989 time period.

As you can see, Australia's production has gone from 1.5 million metric tons to 3.6 million metric tons. Ours has gone up marginally from 5 to 6.2 million metric tons. Our friends in Europe have doubled their production. They were leading the pack back in 1960 to 1964 and now you can see their position today. They have gone from 7.3 million metric tons to 14.6 million. What has the U.S. Trade Representative done to react to the European Community's actions?

Ambassador **Katz**. This is a long story that goes back over a long period of time, but basically I think the fair and correct answer is that the U.S. Government over the long period of time has not challenged or successfully challenged that program. Now there was a challenge in the GATT—actually there have been two challenges in the GATT—one brought by Australia and one brought by Brazil, with respect to the export subsidies of the Community. And those actions failed in part because the subsidy rules of the GATT were not adequate to deal with that.

The Community's program is run in a different way, but clearly the effect of it is to highly subsidize both production and exports.

Senator **Conrad**. Why has not the Trade Representative taken on this battle?

Ambassador **Katz**. Because there is no basis in the GATT rules to do so. The Community's program has been run primarily through a high support price, which is not illegal under the GATT. They have done so through variable levies, which have never been challenged in the GATT, and they have done so through export subsidies, which have been challenged but unsuccessfully because the rules for the GATT have been inadequate.

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[5] See p. 223 for the chart, "Sugar Production—U.S., E.C., and Australia."

The simple truth, Mr. Chairman, is that the GATT rules on agriculture are inadequate. That is the point that we have been making in the Uruguay round negotiations; it is time that agriculture be brought into the international trading system. For much of the life of the GATT, it has been excluded from the rules of the game.

Senator **Conrad**. We have really taken it on the chin. I think this chart vividly demonstrates how this country's interests have not been well represented. We have not been successful at defending U.S. interests. And I would ask you what can be done? If you were not successful in this GATT negotiation, what would be your proposal to address the problem that we have outlined here?

Ambassador **Katz**. Mr. Chairman, let me say first of all that I would not concede that our interests have not been well represented, because during much of the period that you have addressed, the United States has also had a sugar program. It has not subsidized to the same extent as the Community's, but it has involved a heavy subsidy of domestic production, and it has not led to our being a net exporter, although some people feared, 18 months or 2 years ago, that we were moving in that direction.

But that has been part of the difficulty in the GATT, that everyone in the world virtually has been a sinner. So our hands have not been completely free to pursue other people's practices. In the Uruguay round, we decided to take another approach, and we said, let us put everybody's programs and polices on the table. Let us try to change the rules, and do it in an effective way.

Now you have asked, what if the Uruguay round does not succeed? The only answer I can give you at this time, Mr. Chairman, is that we go back to the drawing board. We are not prepared, at this point, to accept failure. We are determined that we will succeed. I cannot guarantee that obviously, and it will take some judgment as to what represents success, but I have also said to you that we are not going to settle for too little. So I think at this point, we want to plug ahead and try to succeed.

Senator **Conrad**. Why have we never challenged variable levies?

Ambassador **Katz**. I cannot give you a clear answer. I do not know what the arguments were back in the 1960's when the issue arose in an important way.

Senator **Conrad**. But why hasn't the issue been raised again? When Australia filed their complaint and was successful, why did not that trigger an intense debate on what we do with respect to the EC to protect our interests?

Ambassador **Katz**. First of all, the Australians did not challenge the variable levy.

Senator **Conrad**. No, when they challenged our program, why did we not challenge Europe to protect our interests?

Ambassador **Katz**. I do not think we had a basis for doing so.

Senator **Conrad**. Well, then your answer is that variable levies are not a basis for challenge; is that correct?

Ambassador **Katz**. I did not say that. You asked me why we did not challenge the variable levy, and I assume that your question is why did we not challenge it way back?

Senator **Conrad**. No, I am asking now. We have had a challenge to our program by Australia, and yet we seem to have rolled over and played dead. The question is: Why did we not attack what the Europeans have done, which has led to a doubling of their production when ours has gone up 20 percent?

Ambassador **Katz**. I cannot tell you precisely why we did not do it when the Australian case was filed because I was not here at the time, but I think the answer undoubtedly is that over the past 4 years the burden of our activity has been on changing the rules rather than trying to challenge policies which are operated under current rules. We do not think that that offers a good avenue of approach currently.

Senator **Conrad**. Let me just say on behalf of producers in this country, it is useful to pursue a multilateral solution. But, while we are doing that, it seems that we ought not to allow our competitors to get ahead us. We ought to be fighting for every market, every place in order to send a clear signal that we are deadly serious about this.

The Europeans think America is going to flinch. They think that they can buy market after market and at some point realize a dominant position. We will have been the fool.

What activity by the U.S. Trade Representative should give us comfort with that regard?

Ambassador **Katz**. Mr. Chairman, I do not accept that we are not representing our interests or pursuing opportunities when we have them. We did pursue the question of the nullification of our oilseeds concession because we thought we had a case there, and we were upheld in that by a GATT panel. The Community has agreed to implement that report. We will pursue clear violations, but where the situation is not likely to be productive and the challenge is under existing rules that are inadequate, we think it is better to try to get those rules changed.

If that does not work, as I have said, we will have to consider other alternatives. At this point, our priorities and our focus are on those negotiations. They have roughly 10 months to go and that is where the burden of our effort is being placed.

Senator **Conrad**. Ambassador Katz, in your testimony you stated and I quote, "we are prepared to take steps to reform agriculture policies, including sugar, but we will take such actions only and only if other countries take equivalent action regarding their trade distorting policies." Does this mean that you are prepared to trade-off the U.S. sugar program in return for concessions by other countries on other commodities?

Ambassador **Katz**. No, I would not put it that way. We have made clear that in the negotiations, there are certain minimum requirements. We have presented proposals on agriculture which cover all agricultural programs and policies. There are other issues in the Uruguay round negotiations where we have minimum requirements in such areas as the so-called new areas—services, intellectual property, investment policy. We have requirements in the area of tariffs. We have requirements in the area of other rules for the GATT.

It is not question of trading off one area for another; it is a question of getting an acceptable package or a critical mass of agreements to bring the results back to the United States and bring it back to the Congress.

Senator **Conrad**. Are you in a position to assure sugar producers in this country that any concessions on sugar would require worldwide changes in sugar programs? That is, that we would not see a situation in which sugar is traded off for some other commodity? Could you give us that assurance?

Ambassador **Katz**. Yes, I can, Mr. Chairman, because in this negotiation we have taken the position that we are not going to negotiate on individual commodities, that what we want are rules to cover all of agriculture. All of our policies are on the table for all of the rest of the world's policies. We are looking at it in global terms, in sectoral terms, but we are not going to deal on sugar or peanuts or wheat or soybeans. We are looking at total policies.

Senator **Conrad**. Understand that that answer tells me that possibly you would tradeoff sugar for intellectual property rights as part of this negotiation?

Ambassador **Katz**. No, sir. That is absolutely not the case. It is contrary to what I said. What I said is that the critical mass must include agriculture. It must include intellectual property. It must include services. It must include tariffs and other subjects. But it is not one versus the other. It is a critical mass of all of those issues with minimum requirements in each of them.

Senator **Conrad**. So you are prepared to pledge to the sugar producers of this country that any concessions on sugar in this country's sugar program would be met by concessions in the sugar programs of others?

Ambassador **Katz**. Absolutely.

Senator **Conrad**. I am very pleased to have that on the record. I think that is an important statement, and a very good one to have been made at this hearing. If we accomplish nothing else at this hearing, I think we have accomplished that. Ambassador Katz, will the U.S. Trade Representative be recommending that USDA initiate the tariff quota system to replace the current import quota system in the near term?

Ambassador **Katz**. We have not come to a decision on that yet. Mr. Chairman, as I indicated, we are continuing to review the options and I think we are close to coming to some interim conclusions within the administration. But before we come to a final decision, we are committed to consulting with all of the relevant and all of the interested sectors of the domestic industry, as well as with congressional committees that are interested in the subject. We are very close to initiating those consultations.

Senator **Conrad**. All right. Senator Kerrey.

Senator **Kerrey**. Mr. Chairman, you have done an awfully good job. The only thing that I would add, Mr. Ambassador, is that one of the concerns that I have is that there is a tendency to acquire a little bit of information, not on your part, but on the part of either the general public or in particular editorial page writers who then take that little bit of information and reach a conclusion that is not entirely appropriate. I think that particularly occurs with the issue of sugar.

Last summer, there was an exchange on the New York Times editorial page, which as you know is constantly editorializing against the sugar program. A gentleman by the name of John Kingery, who you may know was Associate General Counsel for the

U.S. Trade Representative when the Australian case was filed, wrote a letter. In fact, the exchange occurred approximately the same time that Ambassador Hills made what I considered to be an unfortunate statement saying that the sugar program was a disgrace, I believe, at a White House policy meeting.

Such statements contribute to the general confusion about the sugar program and cause an awful lot of Americans to assume that our program is either unique in the world or that it unfairly punishes one particular sector of our economy.

If you did not see Mr. Kingery's letter, I would like to give you a copy of it and read certain excerpts of it and just ask you if you agree with the statement that he made. Essentially, he says that the country bringing the case, Australia, has had an absolute ban on imports of sugar for 70 years and that last year, it announced a proposal to change that ban to a tariff. However, Australia admitted to the international sugar organization that at least for the next several years, the tariff would be so high that it would have the same effect as the ban.

There is an awful lot of us who agreed with Mr. Kingery when he called that hypocrisy. Further he says, we found many such restrictions in other tariff schedules, including an illegal local content rule on tobacco in Australia, and that the European Community in particular had so many quotas in its tariff schedules that we had a list several pages long after reviewing only a fraction of the EC schedule.

He goes on to ask the New York times editorial page why they are so quick to blame America and cry mea culpa. And he asks us to remember that in sugar the major price depressant in the world is not the U.S. quota, but the massive dumping of highly subsidized sugar into the world market by the European Community.

It seems to me, Mr. Ambassador, this is a fairly accurate representation that causes me to ask the same question that the chairman asked about why we did not file a counter charge in GATT? And I would just ask you if you agree with the statements that Mr. Kingery has made in this letter?

Ambassador **Katz**. I do not think there is any question that sugar has been probably the most distorted commodity or the commodity for which has been the most trade distortion in production, and distorting polices over the longest period of time. That is an absolute fact. There are other situations of quotas by the EC and by other countries. We have had some success in getting rid of some of the quotas, but the basic problem is that the rules of the GATT for agriculture are very inadequate.

There are a lot of reasons for that. And the United States, I think, shares some of the responsibility for that in being one of the architects of the GATT. But we are now 40 years or 45 years past that point and we think it is time that agriculture became part of the multilateral trading system, and that is where our efforts are at present.

Senator **Kerrey**. I do not, by the way, disagree at all that agriculture ought to be a part of the multilateral trading process. The concern that I have, and again to reinforce the questions the chairman is asking, is that we at times appear to be saying that U.S. agricultural policy is worse than anybody else's in the world. And that notion tends to get reinforced, it seems to me, by statements that earlier were attributed to the administration. So I was simply trying to find out whether or not you agree with the general thrust of Mr. Kingery's letter.

Ambassador **KATZ**. Yes, I do. And I would state categorically that the United States is far from being the worst. In fact, in the late 1970's, there was a period when we did not have a sugar program, and I thought at that time we were finally out of that business and there was some hope that the world sugar policy could be reformed. And that we put our stock in an international sugar agreement for which we had some hopes, and those hopes were disappointed.

But I think the reason we are back in a sugar program now—there are undoubtedly a number of reasons—but I would make the case that the strongest reason for that is because of the Community's policy. But for the Community's policy, we might have been able to avoid going back into the kind of a program that we have today.

Senator **KERREY**. I think your statement is absolutely correct. Again, the concern that I have is that with the filing of the Australian charge and the result of that case, the American public, unfortunately, will reach a conclusion that seems to me to be contrary to what the facts reveal about the U.S. trading policy over the last 45 years. The instances where we protect our markets are the exception, whereas for the rest of the world, the instances when they do not protect their markets are the exception. That is the way the world is right now.

So, for us to be pleading in some sort of defensive way that we have some aspect of our agricultural program that is protectionist, it seems to me, weakens our position. In fact, it weakens your position. The argument that I would make is that any time we represent that we are somehow doing something terrible here in America regarding free trade, it weakens your negotiating position.

Ambassador **KATZ**. Yes.

Senator **CONRAD**. Well, let me elaborate on that. The reason I asked the series of questions about our refusal to challenge Europe is precisely that in public opinion we appear to be the guilty party. But the facts, I think, lead to quite a different conclusion. There it is, our production in the last 30 years has gone up 20 percent. Our friends in Australia come to the table to negotiate, having gone from 1.5 million to 3.6 million. And our friends in Europe have doubled their production. We are the ones that are on the defensive.

And then you say to me that we have been well represented. I do not see it.

Ambassador **KATZ**. Well, Mr. Chairman, I think to be fair, I would say first of all that I think we have to look at this on the basis of interest. But I think to be fair, showing a chart [6] like that does not tell the whole story. For example, that is a chart that shows sugar. It does not show sweeteners. And of course, what has happened in this country is that the consumption of sugar as a percent of the total sweetener market has actually declined.

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[6] See pp. 223–226 for the charts submitted by Senator Conrad.

We used to consume something like 13 million tons of sugar back in the 1970's and we now consume 8 million tons or less. The difference, of course, has been made up primarily of corn sweeteners. So that does not tell the whole story. But your point is basically correct that other countries, primarily the Community, have had policies on sugar which are much more restrictive and much more trade distorting and production distorting than ours.

And Senator Kerrey's point, I think, is well taken that Australia, which has claimed to be the most efficient sugar producer in the world, and I think probably is close to being that, has had probably the most protective policy on sugar for a century or more. Now they have in recent years moved to change that and they are bringing their protection down very rapidly. But the question is a legitimate one. Why, if they are efficient producers, have they had a virtual prohibition on the importation of sugar?

So I accept your point that we are far from being the worst in the world, but I think it is a question ultimately of where does our best interest lie. On the point about protecting our interest, I would maintain that we do so, and that where there are policies to be challenged abroad, we do so. At this point in time, we think the most effective challenge is to do it on a general basis and then try to change the rules.

Senator CONRAD. If I were negotiating on behalf of America and a central part of our program was challenged, I would have found a way to have a complaint filed on the variable levies of our friends in Europe. Somebody needs to start taking the case to them and putting the wood to them.

You know, I do not know whether we are too nice or whether we have been so successful so long, so prosperous so long, that we have forgotten how to fight. But I just know that when you are in a fight and somebody is hitting you, you better hit back.

Ambassador KATZ. If you sat in my office, you probably would not agree that I am very nice.

Senator CONRAD. You seem like a nice fellow to me. I hope you are fighting back, and I tell you I see too little evidence that we are taking the case to the Europeans. But enough said, we need to turn to Mr. Gardner for his testimony. Again, thank you, Ambassador, for being here this morning.

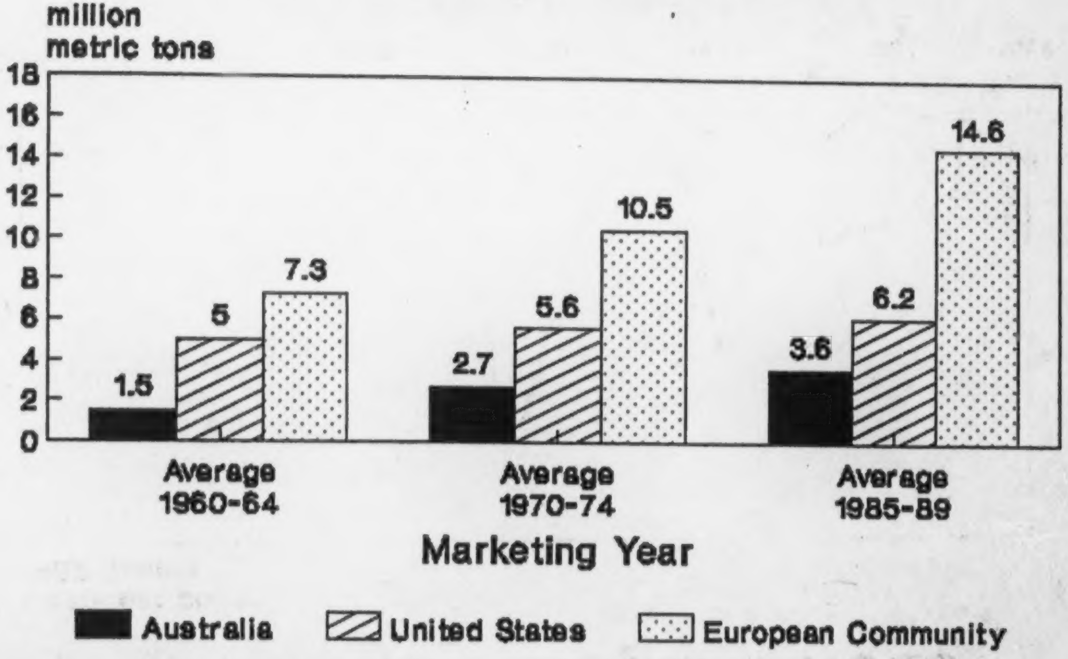
Ambassador KATZ. Do you want me to stay here?

Senator CONRAD. No, if you have another responsibility, we certainly understand.

Ambassador KATZ. Thank you very much.

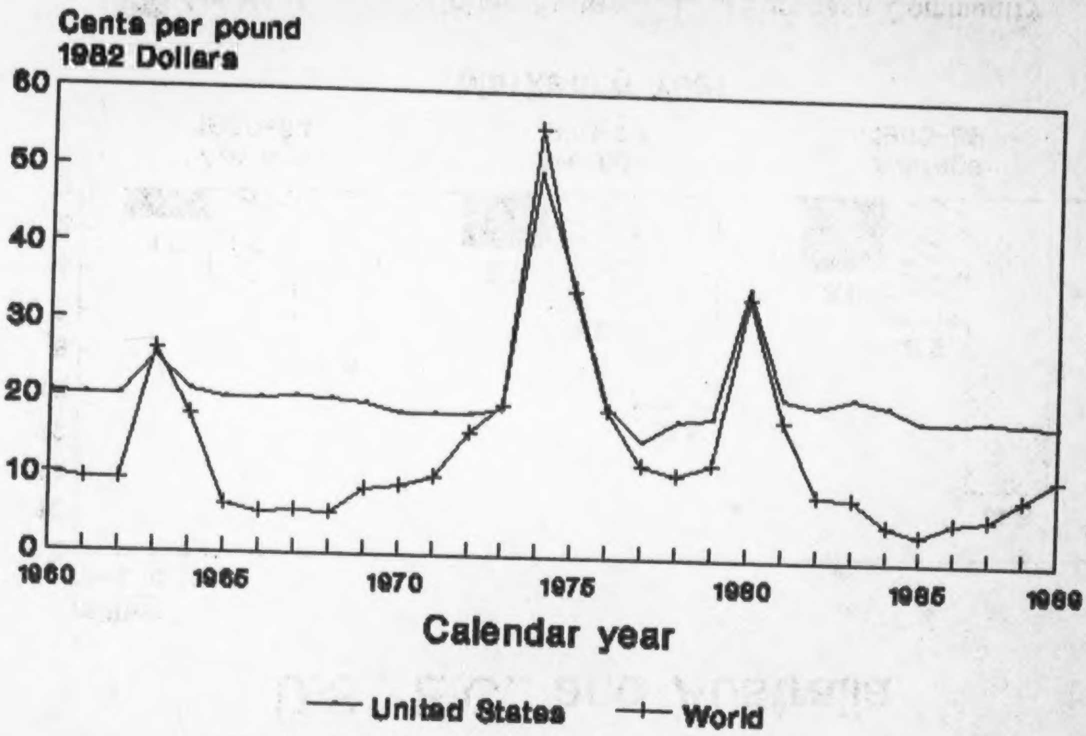
[The charts referred to by Senator Conrad during the hearing follow:]

SUGAR PRODUCTION
U.S., E.C., and Australia



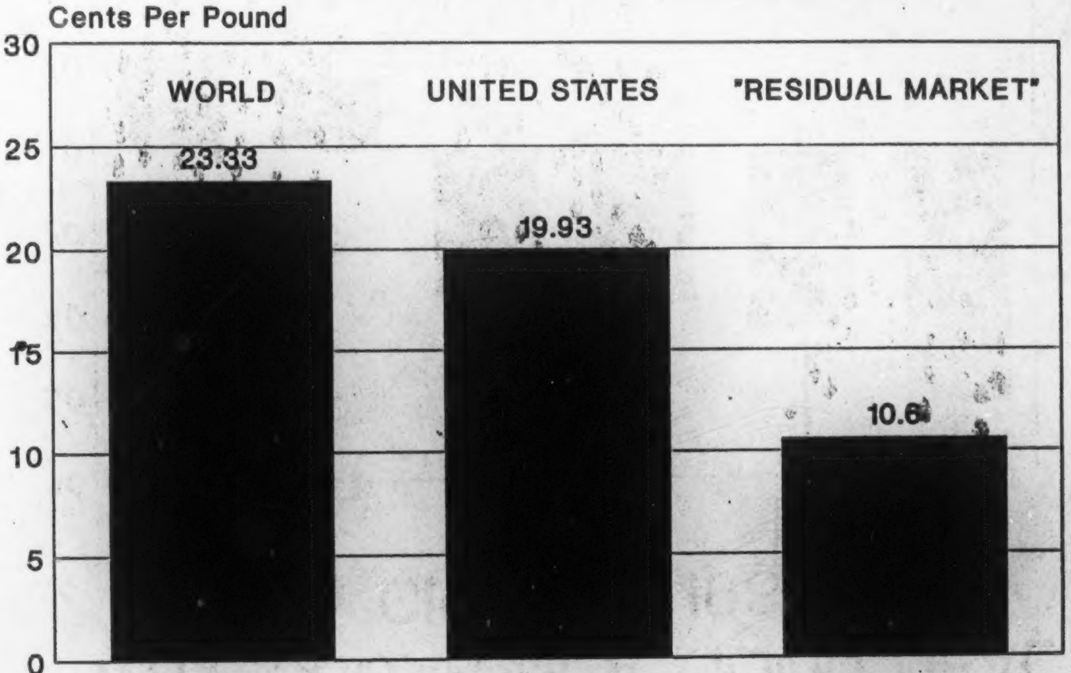
Source: USDA, Foreign Agr. Ser.

Annual Raw Sugar Prices



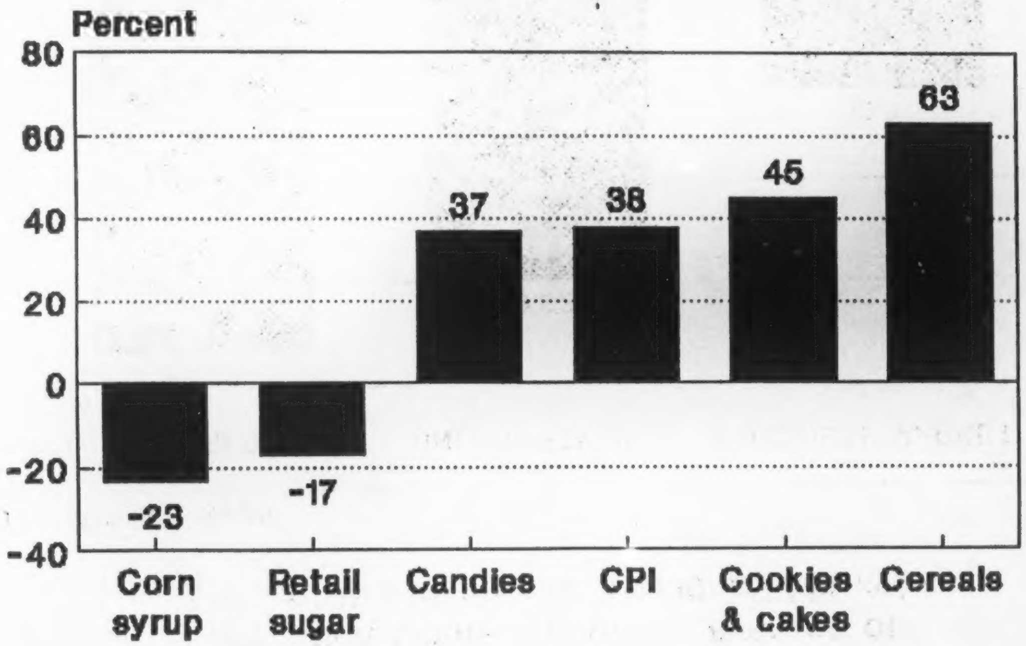
REFINED SUGAR PRICE

Production Costs, Weighted Average of U.S. and World Versus "Residual" Market



SOURCE: USDA. Sugar & Sweetener Situation & Outlook, 6/89.

WHY SUGAR IS A GOOD DEAL
Price Changes, 1980-87



CPI = Consumer price index

Senator **Conrad**. Now for nice guy No. 2, welcome. It is good to have you here.

STATEMENT OF BRUCE L. GARDNER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. **Gardner**. Thank you, Mr. Chairman.

INTRODUCTION

I will summarize, briefly, a few of the main points in my testimony.

I would like to mention some facts that bear on sugar policy and the 1990 farm bill, and then discuss briefly some policy issues.

FACTS THAT BEAR ON SUGAR POLICY

Most countries in the world support their internal sugar prices, as Senator Kerrey was mentioning. Japanese consumers, for example, pay about 90 cents per pound when the comparable world prices are more like 20 cents a pound. The EC, Canada, indeed almost every industrial country, including ourselves, either restricts imports or subsidizes exports or in the case of the European Community does both.

Because of these activities world market prices are extremely variable. When so many countries insulate their own country's market and tend to push their surpluses or deficits in production on to a relatively thin market for freely traded sugar, we get extremely variable prices in this thin market.

FACTS THAT ARE QUITE STRIKING

Just to review some of the facts that are quite striking. During the 1980's, world price of sugar fell from a high of 41 cents a pound in 1980 to a low of 3 cents a pound in June 1985, and has rebounded to 14–15 cents per pound range. In agriculture, of course, we are used to instability. It is not unusual to see crop prices fall in half and then perhaps later double again, as we have seen in corn, for example. But changing by a factor of 10 or more, going from 41 cents to 3 cents, this is extreme volatility by any standard.

The United States could be competitive in a world in which all countries——

Senator **Conrad**. Could I just interrupt you and ask you for your analysis of the reason that we see that kind of extraordinary fluctuation?

Mr. **Gardner**. The detailed answer would be an elaboration of what I have summarized. That is, when each country, including ourselves, maintains a stable internal price and adjusts imports only as needed to maintain that stable internal price, what is left on the world market is going to be a residual. And that residual is going to be extremely variable.

Senator **Conrad**. I want to drill home this point. So what some people call a world price—we see it referred to all of the time in the news media—world price, is not really a world price as one would think of a commodity world price at all. It is in effect, a dump price. Am I right? You can just agree with that.

Mr. Gardner. I would say you are half right in the sense that it is a world price in a sense that it is a market price for the traded commodities that you can see quoted on exchanges and so forth. It is also right that that price results from the activities of countries in subsidizing exports and restricting imports.

Senator Conrad. It does not represent the price that would be found in a market place in which willing buyers and willing sellers were able to make whatever deal was most attractive to them?

Mr. Gardner. It does represent that kind of price.

Senator Conrad. Only at the margin.

Mr. Gardner. But in an extremely restricted environment in the sense that the buyers and sellers making deals about an unpredictable and limited quantity that can be traded.

Senator Conrad. We will come back to this point with respect to tariffication because I think it is a critically important point for people to understand. We are talking about trading at the margin. Any time you are trading at the margin you are going to have extraordinary volatility. Please proceed.

Mr. Gardner. As you mentioned earlier, Mr. Conrad, the United States could be competitive in a world in which all countries would phase out their market interventions on a level playing field. And the industry voices you view repeatedly, it seems to me that the cost of production estimates that we have which are somewhat suspect perhaps, it is difficult to measure these things correctly, but still suggest the same story.

POLICY ISSUES—THE MAIN RECOMMENDATION WE HAVE WITH RESPECT TO THE SUGAR PROGRAM

Turning to policy issues, the main recommendation we have with respect to the sugar program is that any significant changes should be done in the context of multilateral negotiations, the same point you made again. For that reason, we do not recommend any changes in sugar policy in our Green Book proposals. Substantial reductions in the support level, for example, would be seen as and would in fact be a case of unilateral disarmament. This is not to say that we would oppose any change whatsoever in the sugar program.

Indeed the GATT panel finding that you have been discussing will require a change to bring our sugar import restrictions into conformity with the GATT. However, it is important to emphasize that the panel determination was not against the U.S. sugar program as such, and we have no obligation to change the level of support price or its no-cost feature.

Program changes such as the much discussed Gradison-Downey bill, for example, go much further than is required or that, in fact, we would recommend. That bill as I understand it has support price cuts that would add up to 22 percent over 5 years. And it seems to me this is substantial enough to be called unilateral disarmament.

Although we think import levels in the neighborhood of 1 million tons annually will be consistent with the current price support levels during the next few years, the requirements of the Gradison-Downey bill, again, as I understand its current provisions, are that import quotas would be increased to 2 million tons, and this is unlikely to be consistent with the no-cost goal that we have.

THE OPTION OF PRODUCTION CONTROLS THAT HAVE BEEN FLOATED AS POSSIBILITY FOR SUGAR

Finally, I would like to mention the option of production controls that have been floated as possibility for sugar. This could allow us to import more and still maintain the current price levels at no Government cost. But we believe nonetheless that production controls are a bad idea. U.S. production would have to be cut back considerably, perhaps 25 percent, if this approach is going to work either legally in the GATT context or economically. But this would be disruptive to the industry; it would harm farm income; and idling productive capacity besides being wasteful in itself is a kind of unilateral disarmament too. So we do not recommend that.

FLINCH

Finally, Mr. Chairman, I would like to respond to your point about your notion that the Europeans think we will flinch. I would just like to report that I have seen Secretary Yeutter on several occasions dealing with Europeans, and one thing that strikes me as a result of those discussions is that I believe there is no way they got the impression that we will flinch.

[The prepared statement and attachments of Mr. Gardner follow:]

STATEMENT OF
BRUCE GARDNER
ASSISTANT SECRETARY FOR ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE
BEFORE THE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
MARCH 6, 1990

Mr. Chairman and Members of the Subcommittee, I appreciate the invitation to appear today to discuss the U.S. sugar program. Today, I would like to review the performance of the sugar program under the Food Security Act of 1985 and discuss current policy issues.

U.S Sugar In The World Market

World centrifugal sugar production in 1989/90 is projected to be a record 105.7 million metric tons, an increase of about 20 percent since 1978/79-1980/81. Cane sugar production increased one-fourth and now accounts for nearly 65 percent of total world sugar output. The growth in cane sugar production was achieved through a 35 percent expansion in harvested area while yields fell. Beet sugar production increased a tenth due to improved yields as harvested area declined.

Although more than 100 countries produce either one or both sugar crops, the world's top 10 producing nations account for nearly 70 percent of world sugar production. The top 6--the European Community (EC), India, USSR, Brazil, Cuba, and the United States-

-produced 53 percent of the world crop. The EC and the USSR account for nearly two-thirds of world beet sugar production while India, Brazil, Cuba, China, and Australia produce one-half of global cane sugar output. The United States is the only country which is a leading producer of both cane and beet sugar, ranking as the eighth largest cane sugar producer and third largest beet sugar producer.

World sugar consumption grew at a fairly steady pace of about 2 percent a year during the past decade, to an estimated 108 million metric tons in 1989/90. Much growth took place in developing countries in Latin America, Africa, and especially Asia, reflecting greater availability of domestically produced sugar in many of these countries and demand growth due to rapidly expanding populations.

In the developed economies of Western Europe, North America, and Japan, sugar consumption either stagnated or declined during the 1980s. Low population growth and the sharp expansion in the availability of competitively priced substitutes, primarily high fructose corn syrup (HFCS), worked against sugar consumption. In contrast to the market economies of Western Europe, sugar consumption in Eastern Europe and the Soviet Union has trended upward over the last decade, pushing per capita consumption to the highest in the world.

World trade in sugar represents about 30 percent of world production. Over 70 percent of world sugar production is usually consumed in the producing countries. Some 15-20 percent of world production is freely traded in international markets, largely as a residual after domestic needs and preferential sales, such as those under the U.S. sugar quota and the EC's Lome Agreement, are satisfied. Sugar prices are among the most variable in international trade, mainly because small changes in the world crop or shifts in government policy tend to have disproportionate effects in a small and residual world market. In the 1980s, the world price of raw sugar (Caribbean port) fell from a high of 41.1 cents per pound in October 1980 to a low of 2.74 cents per pound in June 1985, and has rebounded to 14-15 cents per pound in recent months.

The quantity of world sugar trade has been relatively stable over the last decade, averaging 27 million metric tons of raw and refined sugar annually. Little growth in exports reflects the lower level of raw sugar imports in the United States, the EC, and Japan, increasing self-sufficiency in a number of countries, and the partial replacement of sucrose by other sweeteners. The United States and Japan still rank among the top 5 sugar importers along with the USSR, China, and the EC which together account for about one-half of annual global imports.

On the exporting side, sugar exports have become more concentrated among the top 4 exporters--Australia, Thailand, Cuba, and the EC. These 4 exporters, along with Brazil, now account for 71 percent of world trade compared to 60 percent a decade earlier. The EC's domestic sugar policy has stimulated domestic sugar production. As a result, EC sugar imports have fallen by nearly one-half since the mid-1970s, and the EC has changed from a net importer to the world's second largest exporter.

The U.S. Sugar Program

The current U.S. sugar program has two basic parts: (1) a nonrecourse price support loan program; and (2) import fees on refined sugar and import quotas on both raw and refined sugar and certain sugar-containing products. Under Section 201 of the Agricultural Act of 1949 as amended by the Food Security Act of 1985 (the 1985 Act), the Secretary of Agriculture is required to support the price of raw cane sugar at such level as determined appropriate, but not less than 18 cents per pound. Sugar beet prices are supported at such level as determined fair and reasonable in relation to the loan rate for sugarcane. The price support level for the 1989 crop of sugarcane is 18 cents per pound of raw sugar and 21.54 cents per pound for refined beet sugar.

Unlike most price support programs, sugar price support loans are made to processors rather than producers of sugarcane and sugar beets. The minimum price support levels are the minimum prices that a processor must pay to a producer. Support levels are usually reflected in contracts between individual processors and producers.

The 1985 Act also established the so-called "no cost" provision which requires that "...the President shall use all authorities available to the President as is necessary to enable the Secretary of Agriculture to operate the sugar program at no cost...by preventing the accumulation of sugar acquired by the Commodity Credit Corporation." The legislative intent of this provision is "...that the [import] quota be adjusted to the level necessary to ensure that there are no forfeitures and thus no cost to the government." [Joint Explanatory Statement of the Committee of Conference on the Food Security Act of 1985]

The no-cost provision has required the curtailing of imports of sugar and sugar-containing products. Import restrictions have been imposed under two authorities: Additional U.S. Notes 2 and 3 to Chapter 17 of the Harmonized Tariff Schedule of the United States, the "sugar headnote authority", and Section 22 of the Agricultural Adjustment Act of 1933, as amended, i.e., "Section 22."

The headnote authority has been mainly relied upon to meet the requirements of the no-cost provision of the 1985 Act. The United States maintains import quotas on raw and refined sugar and certain other articles under the headnote authority. Under the headnote authority, the Secretary of Agriculture determines the global quota and the United States Trade Representative determines the country quota allocations. Section 22 import quotas are currently imposed on certain sugar-containing products, and a Section 22 import fee is imposed on refined sugar imports. Section 22 quotas and fees cannot be imposed concurrently on the same product.

Current Import Quotas

Late last summer, domestic raw sugar prices increased to more than 24 cents per pound, well above the price of of about 22 cents per pound that the sugar program had been establishing. This increase in prices reflected concern about the 1989/90 sugar crop, low domestic stock levels, and the slow pace of quota imports. To increase domestic sugar supplies, particularly during the October-December period, and to place the import quota period on a fiscal year basis, we extended the quota period last September by 9 months [from December 31, 1989 to September 30, 1990] and increased the import quota from 1.125 million metric tons to 1.987 million metric tons. To further supplement domestic supplies, we increased the quota again in November, and for a third time in January in response to a reduced 1989/90 crop.

The quota now stands at 2.585 million metric tons (2.849 million short tons) for the current 21-month quota period. These recent changes in the quota were made under the headnote authority which provides full authority to change the level of the quota and the length of the quota period.

Recent U.S. Sugar Supply and Demand Conditions

Under the sugar program as authorized by the 1985 Act, U.S. sugar production grew from about 6 million short tons raw value in FY 1986 to 7.1 million tons in FY 1988. Production in FY 1989 fell to 6.7 million tons because of the drought-reduced sugar beet crop. In FY 1990, production is expected to be about the same as last year due to freeze damage to the Florida and Texas sugarcane crops and unexpectedly low yields of sugar produced from sugar beets.

Beet sugar production accounts for slightly more than one-half of total U.S. sugar production, about the same as in the early 1980s. Area harvested of both sugarcane and sugar beets increased in the 1980s, as did yields per acre and sugar recovery rates for both sugarcane and beets.

While domestic sugar production has increased in response to the price support provided by the 1985 Act, domestic sugar consumption in FY 1990 is down about 15 percent from the beginning of the 1980s, to about 8.3 million short tons, raw value. Since 1980, many processors of foods and beverages have switched to HFCS as well as low-calorie sweeteners. HFCS consumption has almost tripled, from about 2 million tons in 1980 to 6 million tons in 1989. The guarantee of relatively high sweetener prices under the sugar program has stimulated faster investment in corn wet milling and HFCS facilities.

Sugar now accounts for about 46 percent of per capita consumption of caloric sweeteners compared with 67 percent a decade ago. Per capita sugar consumption has declined by about a fourth. This substitution slowed as the decade ended and domestic sugar consumption has increased about 7 percent since FY 1986. Sugar consumption is projected to increase gradually throughout the 1990s, largely in line with population growth. The main risk of departure from this projection is the possibility of a major breakthrough in substitute sweeteners such as crystalline fructose.

With increasing production, declining consumption, and the no-cost provisions of the 1985 Act, U.S. sugar imports have been reduced from about 4 million short tons annually at the start of the 1980s to a current annual rate of about 1.6 million tons. This sharp contraction in U.S. sugar imports has harmed many developing countries which depend on sugar exports for domestic employment, economic growth, and foreign exchange to pay their foreign debts.

Import quotas have generally kept the U.S. sugar price far above that which would be obtained given unfettered access to world supplies. This increases the price that domestic sugar-using firms and consumers pay for sugar. Raw sugar prices in the United States over the past few years have averaged about 10 cents per pound above world prices. At current U.S. consumption levels, this translates into about a $3 billion annual cost for domestic sugar and sweetener consumers.

Current Sugar Program Issues

There have been two GATT panels on U.S. sugar import quotas implemented in connection with the U.S. sugar program. Last May, a panel found that our import quotas established under the headnote authority were inconsistent with, and unjustifiable under, the GATT. The panel determination was not against the U.S. sugar price support program in general. We have no GATT obligation to change the domestic price support program for sugar.

The panel findings focused exclusively on the legality under the GATT of the absolute quotas on imports established under the headnote authority. The panel made two recommendations for bringing our sugar import regime into conformity with the GATT; (1) eliminate the absolute quotas established under the headnote authority; or, (2) bring the quotas established under the headnote authority into conformity with the GATT. We are required to bring our sugar import restrictions into conformity with the GATT and the panel findings within a reasonable period of time.

There are many complex legal and economic issues to consider in examining options to deal with the panel report. One of these is the outcome of the second GATT panel concerning our Section 22 sugar import restrictions. At the end of January, we received that panel report, but it has not yet been adopted by the Council or cleared for release to the public.

In the context of the headnote authority case, we are looking in some detail at three options which could be implemented under existing Executive Branch authority to bring the sugar import regime into conformity with the GATT. These options are a shift to: (1) a system of Section 22 import fees; (2) a system of Section 22 import quotas; and (3) a tariff-rate quota under the headnote authority in lieu of the existing absolute quota.

Both Section 22 options have potential problems as options. Section 22 quotas, by statute, could not be set at less than 50 percent of the level of imports during a representative period. This would likely oversupply the market and result in forfeiture of sugar pledged as collateral for price support loans to the CCC. The degree of import protection provided by Section 22 fees, which cannot exceed 50 percent ad valorem, and import duties, currently 0.625 cents per pound, would vary with world prices. At current world prices, Section 22 fees and import duties would be high enough to prevent sugar from being imported at prices below the domestic support price. However, lower world prices could result in sugar imports at prices below the domestic support price for sugar and cause forfeitures of loan collateral under the sugar price support program.

A tariff-rate quota would operate much as the current headnote quota. The main difference would be rather than an absolute quota, there would be a two-tiered system of duties. There would be a low import duty on sugar imported up to a specified amount which would allow the quantity of imports needed to fill the gap between domestic production and demand and an increased duty for all sugar imported above that amount. The upper-tier duty would be established to control imports at a level that would not result in a lowering of domestic market prices to the extent there would be forfeitures of sugar loan collateral. By setting the import quantity at which the upper-tier duty takes effect at the current quota import level, a tariff-rate quota would have identical effects on the domestic market as does the current program. A possible increase in imports from Canada due to the elimination of duties on Canadian imports in accordance with the United States-Canada Free Trade Agreement would complicate the import picture. However, we believe that there is existing administrative authority to deal with such complications and still maintain the overall U.S. import level and price effects.

Some have suggested legislated production controls to respond to the GATT finding. Article XI:2(c) of the General Agreement permits import quotas for commodities subject to controls on domestic production or marketing. But the use of this Article is subject to strict requirements. Under Article XI's proportionality requirement, our quota on imports of sugar would have to be at a level of at least 75 percent of domestic production, or about 45 percent of domestic use. Imports of that size would cause domestic prices to fall to such an extent as to lead to large forfeitures and CCC outlays. Therefore, to conform with Article XI, and avoid forfeitures, U.S. sugar production would have to be cut at least 25 percent in 1990. Article XI has other requirements which would also be difficult to meet. Thus, while production controls on sugarcane and sugar beets may have had, at first glance, some appeal to some producers, production controls would actually cause major disruptions. This is the wrong direction for farm policy in the 1990s and we strongly oppose production controls on domestic sugar to bring the import regime into conformity with the GATT.

Other suggested legislative changes in 1990 also run counter to a more market-oriented farm policy. These include: higher support prices, an export enhancement program for sugar, an increased absolute quota, and mandatory marketing controls. These kinds of proposals are clearly at odds with greater market orientation and improved competitiveness.

The authority for the current sugar price support loan program expires with the 1990 crop and we have made no specific proposals to change the sugar price support program. We see no reason to make significant changes in our sugar legislation, although some marginal adjustments may be appropriate. We will work closely on this with Congress in the context of the consideration of the 1990 farm bill.

While the United States is writing a new farm bill, we are at the same time negotiating for multilateral agricultural trade reform in the Uruguay Round. The Uruguay Round is the most significant negotiation ever for agriculture. We have agreed to put all our policies on the table, including sugar, if our trading partners do so. Our GATT proposal is designed to guide world agricultural trade and production toward a market oriented system. We propose reform to improve market access, eliminate export subsidies, and to substantially and progressively reduce trade-distorting domestic subsidies.

Our plan is to achieve fundamental reform in the Uruguay Round so that U.S. sugar producers can compete on a level playing field in the international market. When the Uruguay Round is completed at the end of this year, we will submit to Congress whatever implementing language that may be necessary for commodity programs, including sugar.

Mr. Chairman, that concludes my statement. I will do my best to answer any questions that you may have.

U.S. sugar supply and use, fiscal years

Description	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
						1,000 short tons, raw value				Forecast
Beginning stocks 1/	1,691	1,576	1,649	1,408	1,611	1,760	1,652	1,497	1,316	1,224
Total production	6,068	6,009	5,905	5,813	5,831	6,028	6,885	7,146	6,712	6,704
Beet sugar	3,234	3,318	2,692	2,837	2,915	2,988	3,653	3,822	3,396	3,538
Cane sugar	2,834	2,691	3,213	2,976	2,916	3,040	3,232	3,324	3,316	3,166
Total offshore receipts	4,967	3,614	3,106	3,496	2,871	2,428	1,779	1,291	1,973	2,344
Quota sugar imports	---	587	2,988	3,009	2,193	1,839	1,221	874	1,376	1,849
Oct.-Dec.	---	---	959	632	718	541	449	226	351	218
Jan.-Sept.	---	587	2,029	2,377	1,475	1,298	772	648	1,025	1,631
Quota-exempt for reexport	---	---	190	428	419	467	547	410	550	450
Quota-exempt for polyhydric alcohol	---	---	---	11	19	30	30	33	35	35
Difference between receipts and imports	---	---	-139	24	206	59	-31	-45	---	---
Total foreign	4,881	3,534	3,039	3,472	2,837	2,395	1,767	1,272	1,961	2,334
Puerto Rico	86	80	67	24	34	33	12	19	12	10
TOTAL SUPPLY	12,726	11,199	10,660	10,717	10,313	10,216	10,316	9,934	10,001	10,272
Total exports	1,263	300	255	394	458	507	599	438	516	440
Quota-exempt for reexport	---	---	144	400	390	469	511	354	466	390
Puerto Rico	41	62	66	73	55	52	57	62	50	50
Other exports	1,222	238	45	---	13	---	---	22	---	---
CCC disposal for export	---	---	---	---	--	---	177	---	---	---
Statistical adjust.	---	---	---	-79	---	-14	-146	---	---	---
CCC disposal for domestic use	---	---	---	---	---	127	---	---	---	---
Refining loss adjust.	73	60	69	68	48	58	30	8	53	25
Statistical adjust. 2/	4	-16	54	66	-50	73	144	-21	-18	---
Total deliveries	9,810	9,206	8,874	8,578	8,097	7,799	8,046	8,193	8,226	8,350
Transfer to sugar-cont. products for export under reexport program	---	---	---	13	21	27	100	100	100	100
Transfer to polyhydric alcohol	---	---	---	11	19	30	30	33	35	35
Deliveries for domestic food and beverage use	9,810	9,206	8,874	8,554	8,057	7,742	7,916	8,060	8,091	8,215
TOTAL USE	11,150	9,550	9,252	9,106	8,553	8,564	8,819	8,618	8,777	8,815
Ending stocks 1/	1,576	1,649	1,408	1,611	1,760	1,652	1,497	1,316	1,224	1,457
Privately owned	1,556	1,649	1,408	1,611	1,673	1,456	1,497	1,316	1,224	1,457
CCC	20	---	---	---	87	196	---	---	---	---
						Million				
Population(April 1)	229.3	3.9	3.2	4.4	6.6	8.03	243.36	245.73	248.16	250.61
						Pounds, refined				
Per capita sugar deliveries	79.9	6.1	9.8	1.6	2.1	0.04	60.00	61.31	60.94	61.32
						Percent				
Ending stocks/ total use	14.1	17.3	15.2	17.7	20.6	19.3	17.0	15.3	13.9	16.5

1/ Stocks in hands of primary distributors and CCC.
2/ Calculated as a residual.

Source: Sugar Market Statistics, Crop Production Summary, NASS, Economic Research Service, USDA.

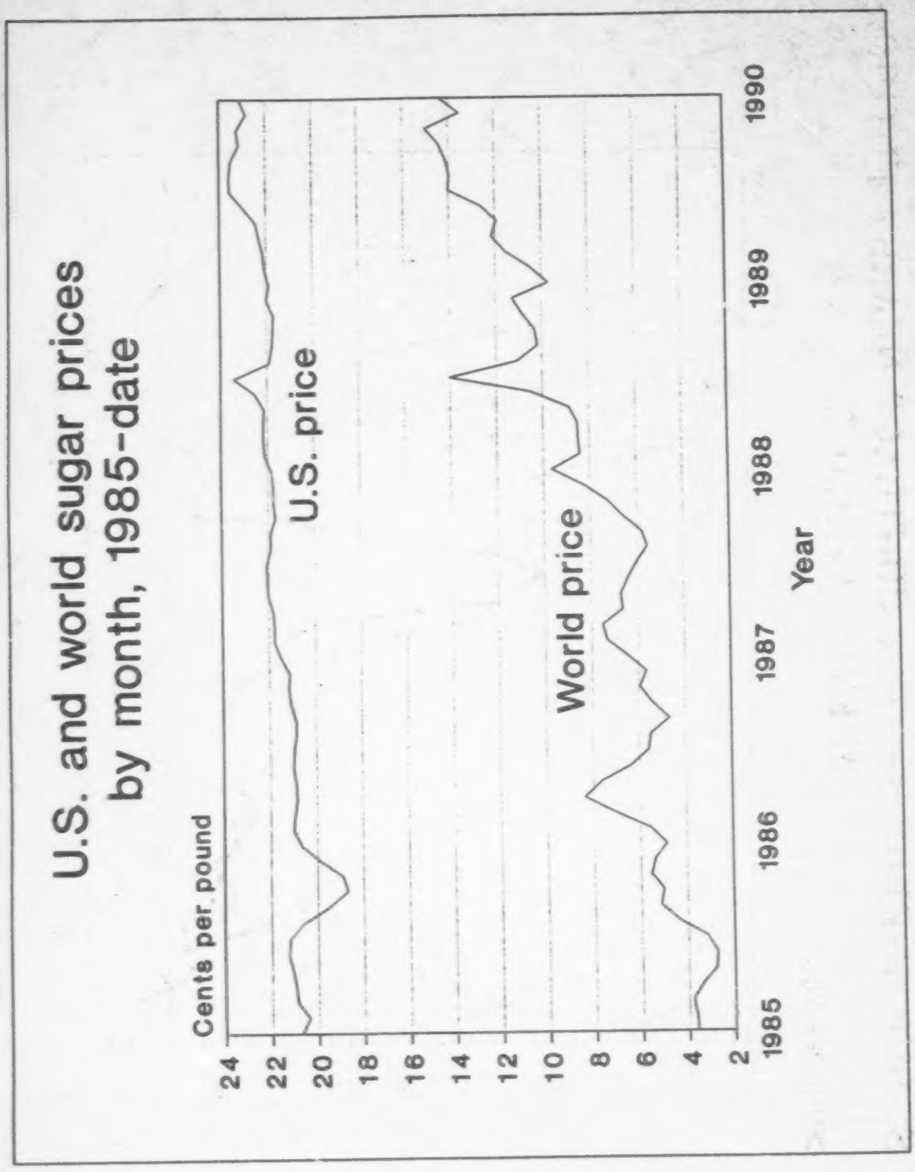
U.S. total consumption of caloric sweeteners, calendar years

Calendar year	Sugar 1/		Corn sweeteners				Pure honey	Edible syrups	Total caloric sweeteners
	Raw value	Refined basis	HFCS	Glucose syrup	Dex-trose	Total			
	Million short tons, dry basis								
1980	10.189	9.522	2.050	2.004	0.399	4.453	0.091	0.046	14.112
1981	9.769	9.130	2.550	2.047	0.403	5.000	0.092	0.046	14.268
1982	9.160	8.561	3.100	2.091	0.407	5.598	0.105	0.046	14.310
1983	8.917	8.334	3.650	2.110	0.410	6.170	0.106	0.047	14.657
1984	8.569	8.008	4.425	2.130	0.414	6.969	0.118	0.047	15.142
1985	8.110	7.579	5.275	2.161	0.418	7.854	0.120	0.048	15.601
1986	7.861	7.347	5.550	2.171	0.425	8.146	0.121	0.048	15.662
1987	8.137	7.605	5.740	2.190	0.430	8.360	0.122	0.049	16.136
1988	8.133	7.601	5.914	2.215	0.440	8.569	0.123	0.049	16.342
1989 2/	8.229	7.691	5.950	2.275	0.450	8.675	0.124	0.050	16.540

1/ Total U.S. sugar deliveries and sugar imported in blends and mixtures.

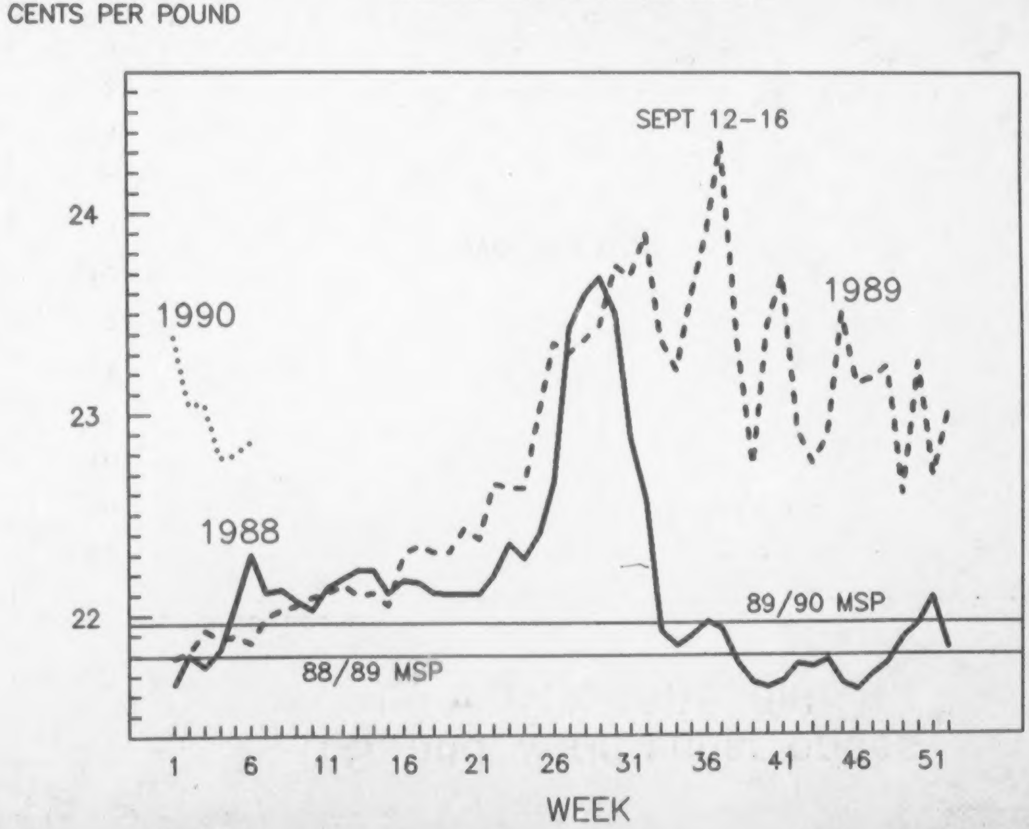
2/ Preliminary.

Source: Economic Research Service, USDA.



U.S. and world sugar prices by month, 1985-date

U.S. SUGAR PRICES--#14 CONTRACT NEARBY FUTURES WEEKLY AVERAGE



Senator **Conrad**. They read our budget and they figured out that we are ready to flinch.

Mr. **Gardner**. But not in the case of sugar.

Senator **Conrad**. Well, I will tell you that Europeans were mighty pleased with the President's budget because they see it as unilateral disarmament. There is nothing that talks more profoundly and more clearly than action, and our President's action is to unilaterally disarm. I do not know what else you would conclude from looking at our budget document.

Mr. **Gardner**. I do not believe that our budget commits us to unilateral disarmament.

Senator **Conrad**. If you were in the middle of a war, and you put in a proposal to cut your military budget 20 percent, your adversary would say you are flinching. I think this type of action sends precisely the wrong signal. If this country recognizes it is in a trade war, we better be ready to fight it. If we are going to retreat and retrench, then we can expect to lose. And when we are in the middle of a negotiation that could determine the structure of world agriculture for a decade, and the first signal that we send is that we are going to back off, I tell you that sends the wrong signal.

In my opinion, Europe is amused. That is the word that has been used by people that are centrally involved in European negotiations and their strategy. They think the United States does not have the stomach to stay the course. I hope we prove them wrong.

Mr. **Gardner**. May I mention about the budget, although I agree, the budget is an element in our arsenal. But there are other important steps we can take in policy to convince everyone that we are not unilaterally disarming. The most important of which I think involve a determination to produce and put out commodities and put them on the world markets and not to retrench within our borders.

Senator **Conrad**. I appreciate that. Perhaps you will support my "super-Export Enhancement Program" proposal. [Laughter.]

I will take that as an endorsement.

Let me ask you this because I want to get back to a point that we were talking about earlier. You talked about the tremendous fluctuation of the price of sugar on the world market. In the last 15 years, we have gone as you have noted from 41 cents to 3 cents. That extraordinary fluctuation takes place because the world price is really a dump price. And if we have a tariffication solution, will we not see that same variability impact the consumer market?

Mr. **Gardner**. A tariffication provision will permit prices to move internally; that is right. But the very fact that prices will move internally means that the dumping market, as you call it, will no longer be such a dumping market. You will see more stability in the overall world trading system. You will see more stability in world prices. There is a tradeoff there. It is just a paradox.

And if each country tries absolutely to stabilize its internal price, it is going to be destabilizing the external prices. By each country agreeing to accept some variability in prices within their borders, which means they will make some production and consumption adjustments within their borders, there are fewer that are thrown on the world market.

Senator **Conrad**. Well, let me ask you this. Have you done a study of what tariffication would do to growers, processors, consumers, industrial sugar users, all of those affected by the sugar industry? Have you done an analysis of what kind of price fluctuation they could expect in the domestic market, if we had a tariffication regime?

Mr. **Gardner**. You would be talking about a multilateral reduction?

Senator **Conrad**. In this case, we are first talking about us going to tariffication, absent the multilateral reduction. There are two elements to the question. One, what happens if we go to tariffication absent a multilateral accord in order to address the GATT complaint? That would be the first question. Has a study been done of that?

Mr. **Gardner**. Not that I know of and I do not know why we would do that because the proposals that we have been considering would not involve tariffication in the sense of a tariff that—a dollar amount of a tariff that would permit a lot of transmission of internal stability into the United States. I do not think that is one of the options it will effect.

Senator **Conrad**. Have you done an analysis of what you perceive to be the options?

Mr. **Gardner**. Yes.

Senator **Conrad**. Could you share that with us?

Mr. **Gardner**. The ones that Ambassador Katz mentioned about the section 22 fees, section 22 quotas, or on the other hand the tariff rate quota, as it is called, where we would replace the current quota level with a second-tier tariff that could be high enough to restrict imports to the current levels. That sort of option would not transmit world price variability to the U.S. market.

Senator **Conrad**. Is that the one that you favor?

Mr. **Gardner**. It is the one, having looked at those three, that makes the most sense to me.

Senator **Conrad**. Again, do you have an analysis of that for producers, for processors, for all the elements of the chain?

Mr. **Gardner**. Yes, in the sense that that proposal would not change any of the key features of the way the domestic sugar market operates now. So you would not see significant changes from where we are now.

Senator **Conrad**. What would the effect on variability of domestic price be?

Mr. **Gardner**. Now this would depend where you fixed the tariff rate on your second tier tariff, but presumably we would fix the second tier tariff at a level that would make it very unlikely that we would see domestic price effects.

Senator **Conrad**. Again, do you have an analysis of this? I think such an analyis would be important for the work of the committee.

Mr. **Gardner**. I will be glad to do that.

Senator **Conrad**. Let me just point to this chart[7] that shows why sugar is a good deal. It is kind of an interesting chart, and perhaps you have seen it before, showing price changes from 1980 to 1987. Candies in this country, on the average, are up 37 percent, cookies and cakes up 45 percent, the CPI, consumer price index, up 38 percent, cereals up 63 percent, corn syrup down 23 percent, and retail sugar down 17 percent.

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[7] See p. 226 for the chart, "Why Sugar is a Good Deal, Price Changes, 1980–87."

And we have a very effective program in providing stability, obviously at no budget cost to the U.S. Government. This is why some of us are eager to sustain a program that has the same qualities.

Let me say that we are now at 10:30. I want to give you a chance to add any further point that you might want to make before we go to our next panel.

Mr. GARDNER. No, I have made the main points I wanted to make.

Senator CONRAD. All right. One last question I think I should ask: In your opinion, what is a reasonable period for GATT compliance? Before the end of the Uruguay round, some time next year, some future time; what is your sense of when we have to respond?

Mr. GARDNER. To the extent that that is a legal question about what a reasonable period means in GATT terms, I cannot answer. But as in common sense terms and with respect to our policy position in terms of sugar policy and in terms of the GATT, it seems to me that to the extent that we can comply with the panel's findings without making significant changes in the way that sugar industry works in the United States, we could do that fairly quickly. But if changes involved substantial effects on the sugar program, then it should be probably in the multilateral negotiations, and we should not do it unilaterally.

Senator CONRAD. Is your recommendation, with respect to the farm bill, is to make no changes?

Mr. GARDNER. Yes, right.

Senator CONRAD. Thank you very much for being here and we appreciate your participation.

Mr. GARDNER. Thank you.

Senator CONRAD. Next we will hear from producers and workers. Representing sugar beet producers, Pat Mahar, president of the American Sugarbeet Growers Association; Mr. Fritz Stein, a sugarcane producer from Florida; Mr. Tim Trotter, vice president of government relations of the National Corn Growers Association; and representing sugar workers, Mr. Mike Lewis of the International Longshoremen's and Warehousemen's Union.

Welcome, all of you. We very much appreciate your attendance here today and look forward to your testimony. And again, if you would summarize your testimony, the full written testimony will be made part of the record. In the interest of time, if you can summarize that testimony it would be helpful to the committee. We still have two other panels after this and we would very much like to get to them in a timely manner. With that, welcome Pat, good to have you here.

STATEMENT OF PATRICK D. MAHAR, PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION, CAVALIER, ND

Mr. MAHAR. Thank you, Mr. Chairman.

INTRODUCTION

I will summarize my testimony. I appreciate the opportunity to appear before your subcommittee today.

I am the president of the American Sugarbeet Growers Association. Our association represents over 11,000 family farmers in 13 States.

The purpose of the sugar provision is to maintain a healthy and viable industry that provides sugar for our consumers at a fair and stable price. The program is a proven success and continues to accomplish these objectives.

GATT NEGOTIATIONS

Mr. Chairman, with the GATT negotiations 10 months from completion, these talks are now in their most critical and sensitive phase. We must maintain our current sugar program and strengthen the provisions in the 1990 farm bill, so as to send a signal to those at the negotiating table that we will not make any unilateral concessions.

THE AUSTRALIAN GATT COMPLAINT

This past year the Australian Government used the GATT dispute settlement process to challenge the implementation of our program.

Mr. Chairman, we believe that there are four reasons why there should be no administrative changes in the current program until the farm bill and the Uruguay round are completed:

First, the GATT does not require a response to the panel decision during any specific time period or prior to the conclusion of negotiations.

Second, the current sugar program has been effectively administered and any changes prior to the end of the round would reduce the leverage the United States now possesses.

Third, other GATT panel decisions are not necessarily being addressed until after the talks are completed.

Fourth, we believe that the administration, your committee, and our industry should analyze various options to see if we can resolve this in the writing of the farm bill.

GATT

I wish to remind the committee that in 1988, then Presidential candidate, George Bush, met with some of our growers in Idaho Falls, Idaho, and pledged:

> Under a Bush administration, the (sugar) program would continue even though I would try very hard to expand markets abroad by breaking down barriers to American products.

He continued:

> I know every administration gives lip service to eliminating the sugar program and other programs, but it's not going to happen unilaterally, believe me.

We expect the President to honor his pledge.

RECOMMENDATIONS FOR THE SUGAR TITLE

LOAN RATE

Now, Mr. Chairman, we wish to make the following recommendations for the sugar title. That Congress clearly gave the Secretary the authority to make upward adjustments in the loan rate based on increased cost of production and other factors. He has chosen not to exercise his authority based on earlier economic data which did not represent actual production costs.

In 1984, a sugar beet cost of production survey was conducted by USDA showing total economic costs per acre of $592 for the average U.S. sugar beet producer. For each of the subsequent 3 years, the base year (1984) costs were adjusted from data provided by an economic generator. While USDA costs show only minimal increases in 1985 through 1987, they failed to reflect reality. It is clear that whatever the USDA was using to reflect the adjustments in grower costs during the interim years between actual surveys was not reflecting what was actually happening to real costs in the field.

A new survey was conducted on the 1988 crop which was 42 pages long and prepared by USDA enumerators. After a great deal of effort by the Department and our growers, we feel that this study is representative of actual grower costs. The new study revealed that actual costs increased a total of 24 percent over the 4-year period or at a rate of 6 percent per year. This rate of increase is also borne out by various indexes such as the consumer price index, prices paid by our producers and the GNP deflator index.

Therefore, the current loan rate of 18 cents per pound is actually only 14 cents per pound in real terms today. If the Secretary had used proper data and made the adjustments in the loan rate as Congress intended, then the rate would be 22 cents on the 1988 crop.

Mr. Chairman, we recommend that the loan rate for the 1991 crop be set at not less than 20 cents per pound, and that the Secretary of Agriculture be required to make annual adjustments for cost of production.

We also request that the sugar loan period be increased from its current 6-month period to 9 months, as it is for other commodities.

NO-COST PROVISIONS—TITLE 9, SECTION 902

We wish to emphasize that the no-cost provisions contained in section 902 must be retained and protected in order to continue to avoid any outlays of taxpayer dollars.

PROTECTION OF SUGAR PRODUCERS—TITLE 9, SECTION 903

We recommend that section 903 be retained for the protection of our growers in case of bankruptcy or other insolvency by any of our processors which renders them unable to meet their financial commitments to growers under the requirements of the program.

BLENDS AND SUGAR-CONTAINING PRODUCTS

A final recommendation would be to control blended sugars and sugar-containing products that have been used as a method to circumvent the import quota forcing reductions in imports from our traditional suppliers. We recommend that this committee in the report language to this bill, send a clear message to the administration to maintain and expand their efforts to control these products.

CONCLUSION

Mr. Chairman, this is my completed summary and I thank you for the opportunity to share our members' views and recommendations to the committee.

[The prepared statement and attachments of Mr. Mahar follow:]

TESTIMONY OF

PATRICK MAHAR
PRESIDENT
AMERICAN SUGARBEET GROWERS ASSOCIATION

BEFORE THE

SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

MARCH 6, 1990

Thank you, Mr. Chairman, for the opportunity to appear before you and the committee to present the views of our membership on the 1990 Farm Bill.

Our Association represents over 11,000 family farmers in 13 states: California, Oregon, Idaho, Montana, Wyoming, Colorado, Nebraska, Texas, New Mexico, North Dakota, Minnesota, Michigan and Ohio. A copy of our membership is attached to our testimony.

In 1989 our growers produced over 25 million tons of sugarbeets from 1.32 million acres of land. Beet sugar accounts for more than half of all sugar produced annually in the U.S.

As Congress begins to review the current U.S. sugar program for its renewal in the 1990 farm bill, we would like to emphasize that the purpose of the sugar provisions is to maintain a healthy and viable domestic industry which will provide a reliable supply of sugar to American consumers at fair and stable prices. This is a farm bill. It is neither a trade nor foreign aid bill, as some would have it be. With this in mind there are four basic facts which must be recognized.

First, sugar is a basic and essential ingredient in thousands of our favorite foods which we purchase or prepare at home. Demand for sugar in the U.S. is remaining steady at approximately 8.3 million short tons (raw basis).

Second, the U.S. is not, nor is it expected to be, self-sufficient in sugar production. Imports for 1990 have been set at 1.6+ million tons, or 20% of sugar consumption. Therefore, consumers are dependent upon foreign suppliers to meet their requirements. Like the U.S., other major importers who look to foreign suppliers for their residual needs are countries such as the Soviet Union, China, Canada, Japan, and South Korea, as well as several Middle Eastern countries.

Third, since the world sugar market is a "dump" market for homeless surplus sugar, supplies are unreliable, resulting in market prices which are by far the most volatile of any commodity (See Exhibit A). Prices in the 1980s ranged from as low as 2.7 cents per pound to as high as 41.1 cents per pound. Skyrocketing prices force consumer prices up ward for sugar and sugar-containing products. When prices fall, the prices of sugar-containing products remain the same, adding to the already healthy profits of industrial users. Plunging prices often fall below producers' cost of production, forcing us out of business. Thirteen beet factories were closed during the unstable years of 1974-1981, and 7 more were lost under the sugar programs since 1981.

Finally, virtually every country has some form of sugar policy to shield their consumers and producers from the prices in this violent world market (See Exhibit B). These countries represent approximately 80% of the sugar produced in the world. Once domestic needs have been met and bilateral agreements fulfilled at prices well above the depressed world price, the remaining surplus is sold for whatever price it will bring. Since domestic prices and prices obtained under bilateral arrangements financially sustain their industries, exporters are then able to sell the remainder of their surplus at prices well below the cost of production anywhere in the world. It is this distressed sugar that threatens our producers. The U.S. sugar program is not a pro-active policy, but a reactive policy, given the nature of sugar programs around the world.

We believe that our industry would do just fine in a world free of trade constraints, producer and consumer subsidies, export rebates et cetera, providing, of course, that all nations agree to move multilaterally with us toward such a goal. According to a study by Landell Mills Commodities of London, England, the world equilibrium price for raw cane sugar in 1988 would approximate 22.7 cents per pound, and would rise to further peak at 31.1 cents in 1990. This is well above our current loan rate of 18 cents per pound.

The U.S. sugarbeet industry is efficient. The Economic Research Service of the USDA, in conjunction with Landell Mills Commodities, recently published a summary of a comparison of world sugar and high fructose corn syrup costs of production. The results show that of the 31 beet sugar-producing regions around the world, the U.S. ranked 7th most efficient (Exhibit C). Of the 12 major high fructose-producing countries in the world, the U.S. was the lowest-cost producer. Finally, of the 61 raw cane sugar-producing countries, the U.S. ranked 33rd.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

With the Uruguay Round of the Multilateral Trade Negotiations (MTN) now in their final 10 months to scheduled completion, these difficult and delicate negotiations are now at a most critical and sensitive phase. We need to strengthen our current sugar program in order to maintain a strong policy for the remainder of the 1990 farm bill and to send a signal to those at the negotiating table that we will not make any unilateral concessions in our sugar program. I wish to remind the committee that in 1988, then-Presidential candidate George Bush met with some of our growers in Idaho Falls, Idaho and pledged:

> Under a Bush administration, the (sugar) program would continue even though I would try very hard to expand markets abroad by breaking down barriers to American products." He continued, "I know every administration gives lip service to eliminating the sugar program and other programs, but it's not going to happen unilaterally, believe me."

THE AUSTRALIAN GATT COMPLAINT

In 1989 the Australian government used the GATT dispute settlement process to challenge the U.S. sugar program on the basis of its improper implementation, using the Headnote Authority, which made it inconsistent with Article 11 of the GATT.

Mr. Chairman, we believe there are several reasons why there should be no administrative changes in the current program until the farm bill and the Uruguay Round are completed.

1) The GATT does not require a response to the panel decision during any specific time period or prior to the conclusion of the negotiations.

2) The current sugar program has been effectively administered with the use of absolute quotas for the past 93 months. With imports up significantly for 1990, there is no reason, other than for cosmetic purposes, to make any changes at this time. To make any changes prior to the end of the Round would reduce leverage the U.S. now possesses.

3) GATT panel decisions which have gone against other countries (ie., the EEC oilseed case) are not expected to be addressed by the respective countries until 1991--after the conclusion of the Uruguay Round.

4) We believe that the administration should wait until this distinguished committee and our industry have had an opportunity to analyze the various options and see if there is an opportunity in the writing of the farm bill to resolve this issue. The U.S. Trade Representative's office has pledged to hold such deliberations with the industry in the future.

RECOMMENDATIONS FOR THE SUGAR TITLE

1) *LOAN RATE*

Mr. Chairman, it should be made clear to those who are unfamiliar with the sugar program that changes in the loan rate do not have any impact on the budget. It is a no-cost program and we intend to keep it that way. The current loan rate of 18 cents per pound began with the 1985 crop. The Congress clearly gave the Secretary the authority and flexibility to make upward adjustments in the loan rate based on increased cost of production and other factors (Title 9, Section 901, Paragraph (4)(A)). The Secretary has chosen not to exercise his authority based on earlier economic data which did not represent actual production costs.

In 1984 a sugarbeet cost of production study was conducted by USDA showing total economic costs per acre of $592 for the average U.S. sugarbeet producer. For each of the subsequent 3 years, the base year (1984) costs were adjusted from data provided by an economic generator. It is clear that whatever the USDA was using to reflect the adjustments in grower costs during the interim years between actual surveys was not reflecting what was actually happening to real costs in the field.

Our member associations worked very hard with the USDA to encourage growers to participate in the 1988 survey, which was 42 pages long and prepared by enumerators from the National Agricultural Statistics Service. After a great deal of effort we feel that this study is representative of actual grower costs.

Total Economic Costs (per acre)	Cash Costs
1984 = $592 (Based on actual grower survey)	$422
1985 = $575 (1984 adjusted)	$419
1986 = $575 (1984 adjusted)	$410
1987 = $592 (1984 adjusted)	$423
1988 = $735 (Based on actual grower survey)	$523

As you can see, costs increased at a rate of 6% per year, or a total of 24% over the 4-year period. This rate of increase is also borne out by various indexes such as the Consumer Price Index, Prices Paid by Farmers, and the GNP Deflator Index. Therefore, the current loan rate of 18 cents per pound is actually only 14+ cents per pound in real terms today. If the Secretary had used proper data and made the adjustments in the loan rate as Congress intended, then the rate would be 22 cents on the 1988 crop.

We are seeing areas such as California and Ohio trying to maintain an efficient acreage base but losing to competing crops. May I remind the committee that unlike many crops, sugarbeet growers and their processors are captive to one another. Beets are a specialized, high cost, high volume and perishable commodity, and the processor depends on a local supply. You don't have to lose all growers to permanently close the processing facility. If you just lose enough growers to make the processor inefficient, the doors are closed to even the most efficient grower.

Mr. Chairman, we recommend that the loan rate for the 1991 crop be set above 20 cents per pound and that the Secretary of Agriculture be required to make annual adjustments for cost of production.

We also request that the sugar loan period be increased from its current six month period to nine months, as it is for other commodities.

2) *NO-COST PROVISIONS--Title 9, Section 902.*

Beet growers wish to emphasize that this section **must be retained and protected** in order to continue to avoid any outlays of taxpayer dollars for the accumulation and management of sugar stocks. As an imported commodity, there is no reason to incur such costs, and it is essential to the proper administration of the program.

3) *PROTECTION OF SUGAR PRODUCERS– Title 9, Section 903*

In 1984 beet growers for the now-defunct Great Western Sugar Company delivered their crop and were assured by the company that the payments to the growers would be made in good faith and in accordance with the grower/processor contract and the required minimum payment per ton as stipulated and required under the sugar program. After an initial payment to growers, other available funds were used to pay other creditors, after which time the company declared bankruptcy. This created an undue hardship for growers and resulted in these Section 903 provisions. We strongly urge the retention of this section for the protection of our growers.

4) *BLENDS AND SUGAR-CONTAINING PRODUCTS*

During the period of the 1985 farm bill the increased importation of blended sugars (ie., sugar/dextrose) and sugar-containing products (ie., chocolate blocks) have been used as a method to circumvent the import quota. Such activities only serve to jeopardize the program and force reductions in imports for our traditional suppliers. We strongly believe that the committee should, in the report language of this bill, send a clear message to the Administration to maintain and expand their efforts in controlling those products which are developed for the purpose of circumventing the import controls.

Mr. Chairman, I would like to thank you for the opportunity to share our members' views and recommendations to the committee.

AMERICAN SUGARBEET GROWERS ASSOCIATION MEMBERS

Big Horn Basin Beet Growers Association (Wyoming)

Big Horn County Sugarbeet Growers Association (Montana)

California Beet Growers Association

Colorado Sugarbeet Growers Association, Ltd.

Elwyhee Beet Growers Association (Idaho)

Goshen County Beet Growers Association (Wyoming)

Great Lakes Sugarbeet Growers Association (Michigan)
- Alma Sugarbeet Growers Association
- Caro Sugarbeet Growers Association
- Croswell Sugarbeet Growers Association
- Saginaw Sugarbeet Growers Association
- Sebewaing Sugarbeet Growers Association

Idaho Sugarbeet Growers Association
- Cassia County Sugarbeet Growers
- Minidoka Sugarbeet Growers Association
- North Side Beet Growers Association
- Twin Falls Sugarbeet Growers Association
- Upper Valley Beet Growers Association

Minn-Dak Farmers Cooperative (Minnesota/N. Dakota)

Monitor Sugarbeet Growers Association (Michigan)

Montana-Dakota Beet Growers Association

Mountain States Beet Growers Association of Montana

Nebraska Non-Stock Cooperative Beet Growers Association

Northern Ohio Sugarbeet Growers Associations
- Fremont Beet Growers Association
- Findlay Beet Growers Association
- Blissfield Beet Growers Association (Ohio/Michigan)

Nyssa-Nampa Beet Growers Association (Idaho/Oregon)

Red River Valley Sugarbeet Growers Association (Minnesota/N. Dakota)

Southern Minnesota Sugar Cooperative

Texas Sugarbeet Growers Association

Washakie Beet Growers Association (Wyoming)

Wheatland Sugarbeet Growers Association (Wyoming)

Wyobraska Sugarbeet Growers Association (Nebraska/Wyoming)

Exhibit A

WORLD RAW SUGAR PRICE

(Monthly - F.O.B. Stowed Caribbean Port, 1960-1990)
Source: Coffee, Sugar and Cocoa Exchange, Inc.

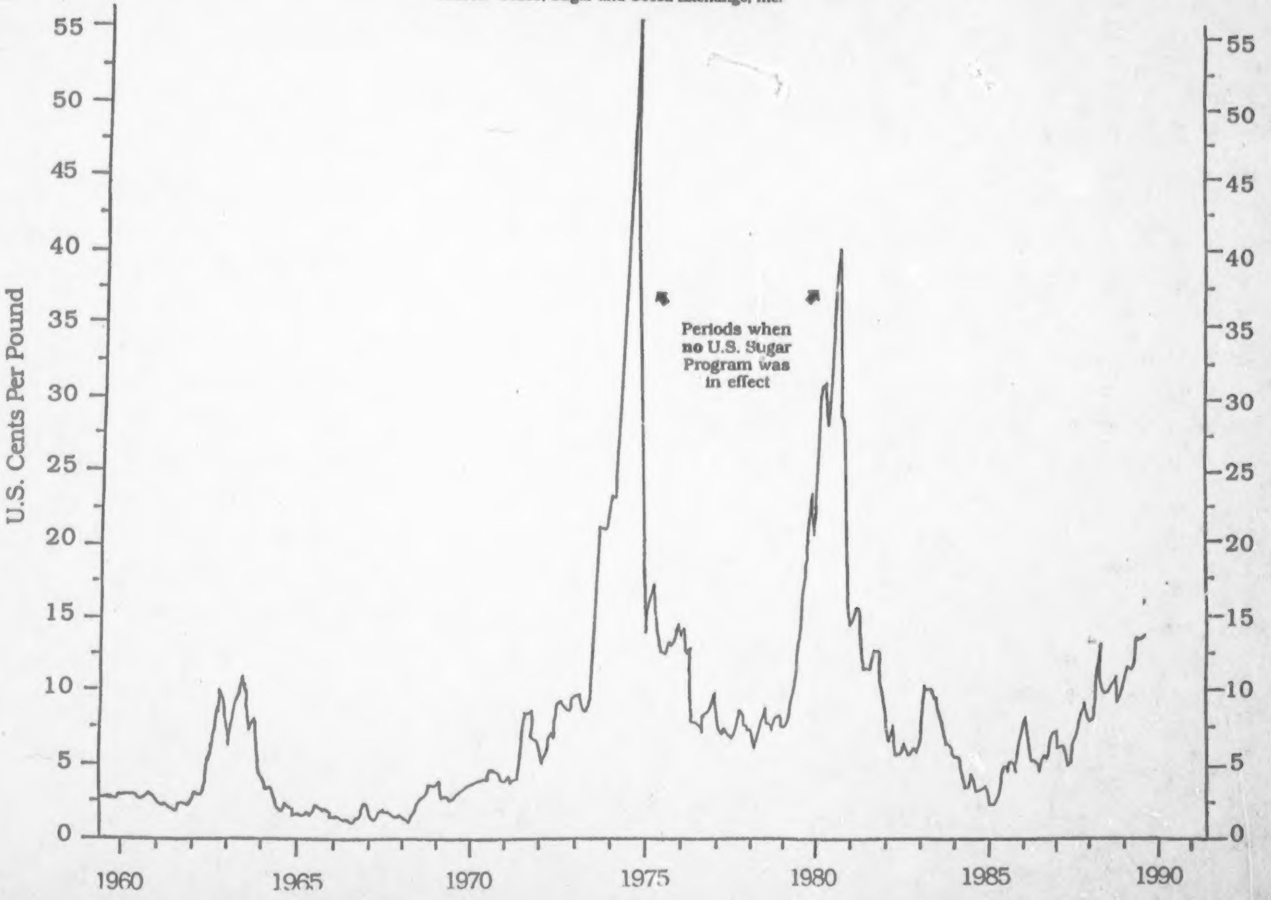


Exhibit B --World Sugar Programs

	Argentina	Australia	Brazil	China, P.R.	Columbia	Cuba	D. Republic	France	W. Germany	India	Indonesia	Italy	Mexico	Pakistan	Philippines	Poland	S. Africa	Spain	Thailand	Turkey	U. K	U. S.	USSR
Indirect Aid																				*			
Export Subsidy								*	*			*				*		*		*	*		
HFCS Quotas	*							*	*			*						*			*		
Regional Subsidies & Taxes			*																				
Export Control			*					*	*			*	*			*		*		*	*		
Processing & Distr. by Gov't		*																					*
Consumption Control	*	*	*							*													
Minimum Price to Farmers	*			*				*	*	*		*	*	*		*		*		*	*		*
Domestic Price Control		*	*	*		*	*	*	*	*	*	*	*	*		*		*	*	*	*	*	
Export Loss Absorption			*																				
Direct Aid		*										*				*				*			
Land Quota		*													*								
Production Quota	*	*	*					*	*		*	*			*		*	*	*		*		*
Import Control	*	*			*		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	
Subsidized Domestic Sale					*																		

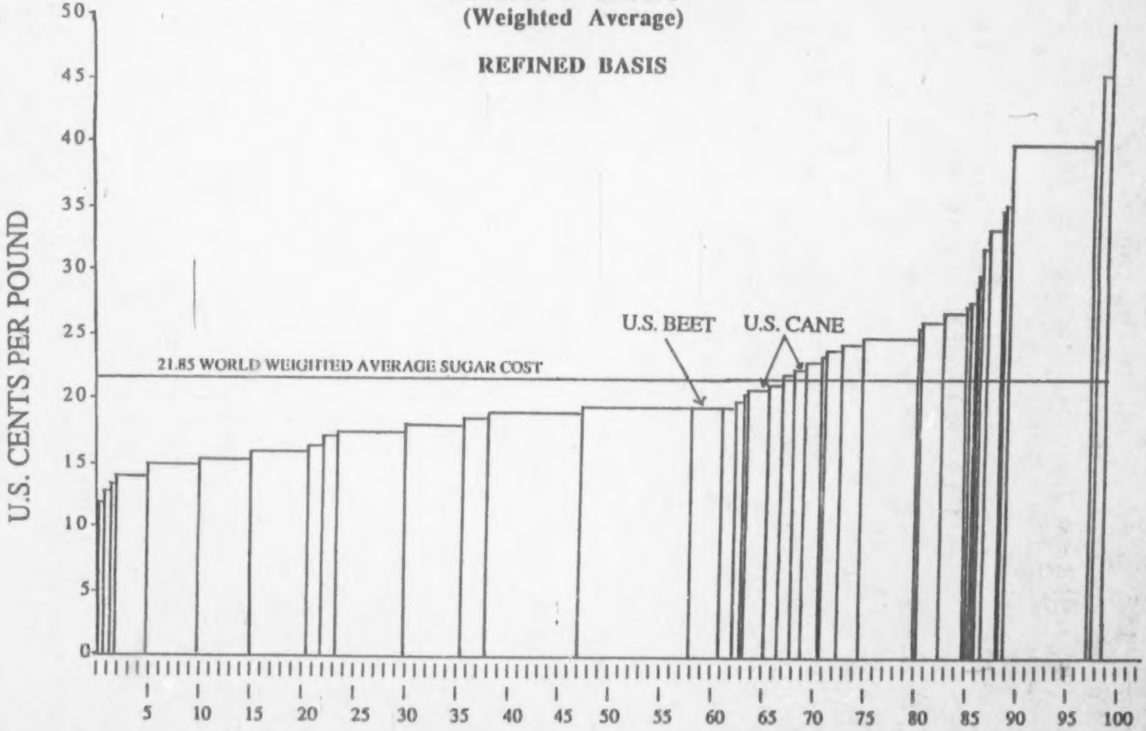
Source: Landell Mills, January 1988

Exhibit C

WORLD SUGAR PRODUCTION COST

1979/80 - 1986/87
(Weighted Average)

REFINED BASIS



Source: Landell Mills Commodities Studies, London, May 1989

Senator **Conrad**. Thank you very much, Pat, for the excellent testimony. It is a great help to the committee and we appreciate the effort that went into producing it.

Next we will hear from Mr. Fritz Stein, sugarcane grower from Belle Glade, Florida. Welcome.

STATEMENT OF FRITZ STEIN, SUGARCANE GROWER, STEIN FARMS, BELLE GLADE, FL

Mr. **Stein**. Thank you, Mr. Chairman.

INTRODUCTION

Mr. Chairman, my name is Fritz Stein. I am a third generation farmer, growing 750 acres of sugarcane in Florida, but I am here today representing not only Florida, but sugarcane farmers in Hawaii, Louisiana, and Texas.

SUGARCANE GROWERS AND PROCESSORS SUPPORT THE SUGAR PROGRAM PASSED IN THE 1985 FARM BILL

Sugarcane growers and processors support the sugar program passed in the 1985 farm bill. It has worked well, benefiting consumers and producers by providing a stable supply of sugar at reasonable prices, as shown in this chart behind me here.

As you can see, the sugar program has worked well to keep prices stable. Moreover, I would note that the average market price has been below the average market stabilization price over the last 5 years.

THE PROGRAM HAS BEEN UNDER ATTACK IN RECENT YEARS

The program has been under attack in recent years motivated more by greed of sweetener users than by fact. History has shown repeatedly that sweetener users have raised product prices when the price of sweeteners has increased, however, they have not lowered them when sweeteners prices have fallen. Some have even admitted that they would not likely change the prices of their products even if the sugar were "given" to them.

The companies represented by the Sweetener Users Association oppose a viable sugar program, however, they continue to enjoy high profits. They seem to want to increase their already healthy profits at the expense of the American sugar farmer by destroying an effective U.S. sugar program.

THE SUGARCANE INDUSTRY SUPPORTS A 5-YEAR RENEWAL OF A SUGAR PROGRAM

Mr. Chairman, I am here today to say that the sugarcane industry supports a 5-year renewal of a sugar program similar to the one which has worked so well for the past 9 years.

CONSIDERATIONS FOR THE COMMITTEE

We request the committee consider the following:

First, continuation of a "no cost" program. The loan rate has remained at the 18 cent level since 1985, which translated into constant dollars equals, roughly, 14.76 cents per pound. In addition, Florida, Louisiana, and Texas suffered devastating freezes this growing season increasing costs. Even though the sugarcane industry has become more efficient in recent years, inflation has caught up with us. It is unlikely the energy, labor, equipment, maintenance and other costs will decrease in future years, so we feel a modest increase in the loan rate is justified.

Second, minimum market access of 1,250,000 short tons raw value per year for traditional exporters to the United States guaranteed by standby domestic marketing allotments for all nutritive sweeteners. This would maintain program integrity, provide throughput for U.S. cane refiners and economic stability to exporting countries.

Third, loans be nonrecourse repayable in 9 months or at the end of the fiscal year, whichever is earlier.

CONCLUSION

Mr. Chairman, as a farmer, I appreciate your efforts and those of this committee to help create an environment in which my family and I can continue to produce a good product at a fair price for other American families. I am an efficient farmer and I am willing to compete with growers in any part of the world, however, I cannot compete with the trade-distorting practices of governments in other sugar producing countries.

The U.S. sugarcane industry recognizes the need for unity among all commodity groups and we support our fellow farmers' programs and are willing to help in any way we can. Thank you, sir.

[The prepared statement of Mr. Stein follows:]

STATEMENT
by
FRITZ STEIN
SUGARCANE GROWER

ON BEHALF OF

AMERICAN SUGAR CANE LEAGUE
FLORIDA SUGAR CANE LEAGUE
HAWAIIAN SUGAR PLANTERS' ASSOCIATION
RIO GRANDE VALLEY SUGAR GROWERS

BEFORE THE

AGRICULTURAL PRODUCTION AND STABILIZATION
OF PRICES SUBCOMMITTEE
of the
SENATE AGRICULTURE, NUTRITION
AND FORESTRY COMMITTEE

March 6, 1990

Mr. Chairman and Members of the Committee, my name is Fritz Stein. I am a third generation farmer growing 750 acres of sugarcane in Florida but I am here today representing not only Florida but sugarcane farmers in Hawaii, Louisiana and Texas.

Mr. Chairman, sugarcane growers and processors support the Sugar Program passed in the 1985 Farm Bill. It has worked well, benefiting consumers and producers by providing a stable supply of sugar at reasonable prices. USDA has identified the US as an average cost marketer of sugar as compared to other countries due, in part, to the stability provided by the program. The Sugar Program benefits United States consumers and industrial users by providing a dependable supply of sugar at reasonable prices.

	MARKET PRICE*	**USDA'S MARKET STABILIZATION PRICE**
1985	20.34	21.57
1986	20.86	21.50
1987	21.84	21.78
1988	22.14	21.76
1989	22.78	21.80
5 Year Average	21.59	21.68

*Based on settlement price of nearby Sugar #14 futures contract.

As you can see, the sugar program has worked well to keep prices stable. Moreover, I would note that the average market price has been below the average Market Stabilization Price over the last five years.

Only in 1989 did market prices exceed the USDA's market stabilization price for any significant period of time and that was because Brazil, one of the largest quota holding countries, refused to ship 93,500 metric tons of sugar because the sugar had been sold earlier at prices that were now below the market. When this withholding of sugar by Brazil became apparent and domestic refiners became concerned about running out of sugar, Florida expedited shipments, advanced some contracts and moved over 183,000 tons to refiners in a thirteen week period. Having the ability to provide domestically-produced sugar made it possible for US refiners to continue operation and avoid shortfalls in the market created by an unreliable foreign supplier.

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The program has been under attack in recent years motivated more by greed of sweetener users than by fact. History has shown repeatedly that sweetener users have raised product prices when the price of sweeteners has increased, however they have not lowered them when sweetener prices have fallen. Some have even admitted that they would not likely change the prices of their products even if the sugar were "given" to them.

The companies represented by the Sweetener Users Association oppose a viable sugar program however they continue to enjoy high profits. They seem to want to increase their already healthy profits at the expense of the American sugar farmer by destroying an effective US sugar program.

Critics of the program have printed reams of paper citing returns per acre for sugar producers as being excessive compared to other program crops. It should be noted that sugarcane production is unlike other crops in that it is a multi-year crop; planted one year and re-harvested annually for a number of years. Sugarcane requires heavy investment in specialty equipment and labor which is not the case for most other program crops.

In addition to traditional enemies to the sugar program, new methods to foster program destruction have emerged. USDA currently has an "option paper" which outlines three options they are considering concerning possible adjustments to sugar import policy. They are (1) the imposition of tariff rate quotas on a country-by-country basis; (2) fees under Section 22; and (3) quotas under Section 22. We believe changing the sugar program in any way, during the Farm Bill debate or the remainder of the Uruguay Round, could be detrimental not only to US sugar producers but to US trade negotiators as well. We have had repeated assurances from the Administration and even Australia's Prime Minister that the Australian GATT Panel Report would not be addressed immediately. But, as recently as last week, an Australian Embassy Official said "We insist that the US move to bring its sugar regime into compliance as soon as possible". As an efficient, hard working American farmer, I am indignant that our friend and ally Australia would make such a statement when they enforced a total embargo on sugar imports over the last 79 years until they replaced it with a prohibitive tariff last summer. Surely a reasonable time to deal with this issue is in order.

If the domestic sugar program is eliminated or the loan rate lowered, driving US farmers out of business, a major beneficiary will be the European Economic Community (EEC). Through a generous price support system they have increased their production from 9.2 million tons in 1974 to 14.6 million tons today. From a net importer of sugar in 1976, the EC has become the largest exporter of refined sugar in the world, and second only to Cuba in terms of net sugar exports. This year they will have over 5 million tons of sugar available for export or roughly one-third of the world free market demand. European farmers were reportedly receiving 26.7 cents per pound for their production in 1982 while the European Economic Community was dumping their surplus production at prices below 6 cents per pound. Lowering United States loan rates would represent a major victory of the EEC policy of promoting excess production and would ultimately reward them for the chaos their export policies have caused producers everywhere. The Sweetener Users legislative effort would lead to "dumping" into the US by the EC. Further, lowering the sugar loan rate, as proposed by the users, would immediately lower revenues received by sugar exporters in the Caribbean, damaging those economies.

Mr. Chairman, I am here today to say that the sugarcane industry supports a five year renewal of a Sugar Program similar to the one which has worked so well for the past nine years and we request the Committee take the following into consideration:

(1) Continuation of a "no cost" program at a loan rate of 20 cents per pound with increases tied to increases in our cost of production. The loan rate has remained at the 18 cent level since 1985 which translated into constant dollars equals roughly 14.76 cents per pound today. In addition, Florida, Louisiana and Texas suffered devastating freezes this growing season increasing costs. Even though the sugarcane industry has become more efficient in recent years, inflation has caught up with us. It is unlikely that energy, labor, equipment, maintenance and other costs will decrease in future years so we feel a modest increase in the loan rate is justified.

(2) Minimum market access of 1,250,000 short tons raw value per year for traditional exporters to the US guaranteed by standby domestic marketing allotments for all nutritive sweeteners. This would maintain program integrity, provide throughput for US cane refiners and economic stability to exporting countries.

(3) Loans be non-recourse repayable in nine months or at the end of the fiscal year, whichever is earlier.

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Mr. Chairman, as a farmer I appreciate your efforts and those of this committee to help create an environment in which my family and I can continue to produce a good product at a fair price for other American families. I am an efficient farmer and I am willing to compete with growers in any part of the world however I cannot compete with the trade-distorting practices of governments in other sugar producing countries.

In administering any program, it is important for USDA to have pertinent, accurate and timely industry data. Such was the case during previous programs, however, in an effort to reduce paperwork and record keeping, the Department during current legislation has not collected or had the authority to compile meaningful statistics. This is not to say they haven't done a good job with what they have, unfortunately most of their data has been 60 to 90 days old when published. We believe it would benefit all industry segments from producers to users to have more timely information and therefore recommend the Congress consider a requirement for more timely industry trade statistics.

The US sugarcane industry recognizes the need for unity among all commodity groups and we support our fellow farmers' programs and are willing to help in any way we can.

Thank you.

Senator CONRAD. Thank you very much, Mr. Stein.

My colleague, Senator Boschwitz has arrived and I turn to him for any statement that he might want to make.

Senator BOSCHWITZ. Well, Mr. Chairman, I am sorry to be late. I was down at the Department of Agriculture talking about dairy. And then had to get one of my former staff people confirmed who is having a hearing of the Formulations Committee, and I am afraid that I am going to have to go back to that at about 11:15.

But as we have worked closely together on the sugar program, I intend to continue that. And we certainly are the sugar guys on this committee, sweet. So that I am pleased to be here. Is this your second panel? So that Mr. Gardner has already testified?

Senator CONRAD. Yes.

Senator BOSCHWITZ. And Mr. Katz? Are they still here by chance?

Senator CONRAD. No, they heard you were coming.

Senator BOSCHWITZ. That always happens. The lights go out too, I want to warn you when I start talking. Go right ahead, Mr. Chairman.

Senator CONRAD. Next we will proceed to a representative of the corn producers, Tim Trotter of the National Corn Growers Association. Welcome and proceed.

STATEMENT OF TIM TROTTER, VICE PRESIDENT, GOVERNMENT RELATIONS, NATIONAL CORN GROWERS ASSOCIATION, COAL CITY, IL

INTRODUCTION

Mr. TROTTER. Mr. Chairman, thank you for the opportunity to speak with you today on behalf of 23,000 farmers in 47 States who make up the National Corn Growers Association (NCGA).

FEDERAL SUGAR POLICY IS QUITE IMPORTANT TO THE NCGA

Federal sugar policy is quite important to the NCGA because of the increased use of corn sweetener. Consumption of corn sweeteners grew by 50 percent during the 1980's, to the point where almost 600 million bushels of corn are converted to sweeteners each year for use in products ranging from soup mixes to peanut butter. That market of 600 million bushels is the third largest market in U.S. corn.

NCGA SUPPORTS THE CURRENT URUGUAY ROUND

As a market-oriented organization, we are in support of the current Uruguay round of negotiations under the General Agreement on Tariffs and Trade as a means of reducing both tariff and nontariff barriers. Therefore, NCGA policy urges negotiations to eliminate all Government intervention in the production, marketing, export and import of sugar.

THE TRADING ARENA FOR SUGAR IS PERHAPS THE MOST DISTORTED MARKET IN ALL OF INTERNATIONAL AGRICULTURE

While we would welcome going head to head with other sweetener-producing nations in a fair world market—since we feel corn sweeteners from the United States would be quite competitive—the fact is the trading arena for sugar is perhaps the most distorted market in all of international agriculture. The European Community is largely to blame for this skewed trading scene, having promoted production so much that it went from a net importer to the free world's largest exporter in a short period of time in the late 1970's and the early 1980's.

WHY THE NCGA ADVOCATES CONTINUATION OF THE SUGAR PROGRAM

The need to counter production incentives and dumping of highly subsidized sugar by the EC and some other sugar-producing nations is why the NCGA advocates continuation of the sugar program. Only with such a program can U.S. producers be sheltered from an anarchy of today's world sugar market.

We realize the Australian challenge of our sugar program through the GATT may require changes in the support system. But it is pretty hard to tell some of our rural route farmers that Australians have not imported any sugar in 75 years that it should be an issue and the current U.S. program does allow imports. However, it is unclear today what adjustments would make our program "GATT-legal" and it is quite possible it will remain unclear until the Uruguay round ends.

LEAVE THE U.S. SUGAR PROGRAM AS IS IN THE UPCOMING 1990 FARM ACT

Therefore, we feel it is prudent for Congress and the administration to leave the U.S. sugar program as is in the upcoming 1990 farm act. Doing so will increase negotiators' leverage in the GATT Uruguay round, while also shielding U.S. farmers from the chaotic world market. Thank you very much.

Senator CONRAD. Thank you, Mr. Trotter. We appreciate your participation.

Next we will hear from Mr. Mike Lewis of the International Longshoremen's and Warehousemen's Union. Welcome.

STATEMENT OF MICHAEL LEWIS, INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION, WASHINGTON, DC

Mr. LEWIS. Thank you, Mr. Chairman.

INTRODUCTION

My name is Mike Lewis and I am the Washington representative of the International Longshoremen's and Warehousemen's Union (ILWU).

ILWU represents more than 6,000 workers in the Hawaii and California sectors of the U.S. sugarcane industries. In addition, I should state that I am authorized to speak here today, not only for ILWU sugar workers, but for more than 22,000 sugar beet, cane, and corn sweetener workers around the country who are members of the Seafarers International Union; the International Brotherhood of Teamsters; the International Association of Machinists; the Distillery and Allied Workers Union; the Oil, Chemical, and Atomic Workers Union; and the American Federation of Grain Millers.

JOBS DIRECTLY AND INDIRECTLY BOUND UP IN THE DOMESTIC SWEETENER INDUSTRY

More than 144,000 American jobs are directly bound up in the domestic sweetener industry. More than 200,000 additional jobs are indirectly related to the industry. I emphasize these figures at the outset because opponents of the sugar program like to claim that it benefits "only a few wealthy growers." The fact is that the workers who earn their living in this industry are as dependent on the sugar program as our employers.

In technological sophistication and cultivation techniques, the U.S. sweetener industry is the most competitive in the world. On the level playing field of truly free competition, it can hold its own with any other producers.

However, the "level playing field," simply does not exist today. The U.S. sugar program is necessary because too many other countries artificially subsidize their sugar industries.

SUBSIDY TAKES TWO BASIC FORMS

This subsidy takes two basic forms. One is direct government assistance, as exemplified by the European Community, and you have covered that very thoroughly this morning. The other is the artificial reduction of labor costs through a government policy of toleration, and sometimes active support, of outrageously low wages, inhuman working conditions, and systematic violation of internationally recognized labor rights.

I WOULD LIKE TO DISCUSS THIS LATTER ASPECT

In the brief time I have, I would like to discuss this latter aspect. Particularly now, when a primary rationale advanced by some opponents of the U.S. sugar program is its alleged social and economic costs to sugar-producing countries in the Caribbean Basin and the Far East, this aspect of the issue needs to be addressed.

Union members in the United States feel a solidarity second to none with our fellow workers abroad. We believe that U.S. foreign policy can and should benefit us all.

However, there is far more to the story of sugar workers in other countries than the U.S. sugar program. To accuse the program of depriving the working people of other regions of viable livelihoods is like blaming a quarantine for the onset of the disease.

The Dominican Republic, which receives the single largest allocation of the U.S. sugar import quota, is a prime example. Thousands of canecutters for the Dominican sugar mills are routinely imported from the neighboring country of Haiti because too few Dominicans are willing to do the work under present conditions. From 1952 to 1986, much of this labor importation was conducted through annual government-to-government contracts, but the provisions in these contracts concerning standards for pay and working conditions were never enforced.

Today many Haitian caneworkers, some only in their early teens, are lured to the Haiti–D.R. border through false promises by the Dominican State Sugar Council, which has agents in Haiti. They are then taken, often by force, to the work camps by Dominican military personnel. In addition, thousands of Dominican citizens and residents of Haitian descent, and even some Haitian citizens living on the Haiti side of the D.R.-Haiti border, are forcibly conscripted form their villages each year. Many of these victims are children as young as 13. The national federation of Dominican truck owners has confirmed that the Dominican Government actually pays a driver's fee of a fixed amount per conscripted worker transported. In the early 1980's, official documents proving the military's role in this mass kidnapping were printed in the Dominican press. Since then, high-ranking military officers have confirmed their involvement. The ongoing policy of conscripting resident Haitians has also been condemned by the Conference of Dominican Bishops.

Upon arrival at the work camps, conscripted workers are forced to work under armed guard. Those who refuse are simply incarcerated in jail cells until they submit. Working and living conditions, for migrant workers alike, are predictably terrible: canecutters work 12-hour days from dawn to dusk, usually 7 days a week, with little or no food and water provided. The barracks and shacks in which workers are housed provide no water, electricity, or even latrines; disease is rampant and health care nonexistent. Pay averages around 12 pesos, $1.50 a day, below even the Dominican legal minimum wage of about $3 a day.

Those attempts that have been made to organize Dominican canecutters have been suppressed by mass firings and physical violence, harassment, and even murder, or thwarted by antiunion labor laws. Strikes are illegal unless they result from an employer violation of a collective bargaining contract. But no contract can be negotiated unless a union has been formally registered with the Ministry of Labor as a bargaining agent. To qualify for registration at a given workplace, a union must have a membership of more than 61 percent of the workers. In addition, the Ministry of Labor can deny registration on the basis of almost any past organizing activities, and it has already refused to register at least two caneworkers' unions. The upshot is that no fieldworkers in the Dominican Republic are even represented by bona fide unions.

The Philippines, which enjoys the second largest U.S. allocation for sugar imports, is another glaring example of competitiveness founded on unconscionable exploitation of workers. Both before and after the fall of the Marcos regime, the island of Negros, the country's primary sugar-producing region, has been virtually a feudal preserve for growers. Over the last 3 years, the role of suppressing workers' organizing efforts has shifted from the State and national police to the private vigilante groups maintained by the growers themselves. But this suppression remains as effective and brutal as before. The living conditions of sugar workers remain as poor as ever, and in many cases are even worse.

The National Federation of Sugar Workers, which represents approximately 50,000 field and mill workers in Negros, has been under vicious attack ever since it was founded in 1971. Since 1986, scores of workers—particularly union leaders—have been murdered for being active in the union; hundreds of others have been arrested, abducted, harassed, or threatened. Union offices are routinely raided, usually on the pretext that the union or its offices are fronts for antigovernment guerrilla forces.

Minimum legal wages for field workers are still less than $2 a day, even after the mandatory increase enacted by the Philippine Congress last spring. Most agricultural workers are actually paid much less than the legal minimum, as the U.S. State Department acknowledged in its report on human rights abroad for 1988.

Mr. Chairman, our written statement contains citations for documentary confirmation of these brief descriptions of the Dominican Republic and the Philippines.

The import allocations for the Dominican Republic and the Philippines alone comprise nearly one-third of the entire U.S. sugar quota. But other countries in Latin America now pressing for broader access to the U.S. sugar market have also developed their sugar industries at the cost of their workers' most basic welfare. In Brazil, El Salvador, Guatemala, and Honduras, the pattern is largely the same: wage rates are a small fraction of the minimum U.S. wage—$5 a day or less—and union members and their families are the victims of ongoing violence.

We do not emphasize these grim facts because we expect the 1990 farm bill to correct them, although we would favor labor-rights eligibility criteria for each country's quota allocation, similar to those Congress has already attached to the Generalized System of Preferences, the Overseas Private Investment Corporation, and section 301 unfair trade practices. We cite this information because Congress and the American public need to understand what U.S. sugar workers are up against, and why the U.S. sugar program amounts to no more than a limited countermeasure. You also need to understand that the rationale of "assisting neighboring countries in the Caribbean, Latin America, and Asia" by allowing U.S. consumers to benefit from cheaper imported sugar, would not translate into improving the lives of the working people abroad who produce this sugar. Rather, eliminating or gutting the sugar program, or expanding the import quota allocations of these countries, would only create a windfall for large foreign employers and their governments.

This does *not* mean that the U.S. sweetener industry can only compete in the world market if workers abroad receive wages equal to U.S. payscales. I want to emphasize that, Mr. Chairman.

Senator BOSCHWITZ. Mr. Chairman, I do not mean to interrupt this witness, but are you going to read the entirety of your statement?

Mr. LEWIS. No, I did not intend to, Senator, but I can stop if you would like me to, Mr. Chairman.

Senator BOSCHWITZ. I would ask that you summarize it.

Senator CONRAD. If you could summarize, it would be very helpful.

Mr. LEWIS. I covered the gist of what I wanted to emphasize here, Mr. Chairman. I am aware that these issues are not normally covered in this forum, but we think it is time they were given some consideration. Much of what I also have to say has been covered in previous statements. So I will simply stop here and ask your permission to introduce into the subcommittee's record, two publications. One is called, "Haitian Sugarcane Cutters in the Dominican Republic." It is authored by America's Watch, the National Coalition for Haitian Refugees, and Caribbean Rights. And also "Blood and Sweat and Negros Sugar" which is authored by the National Federation of Sugar Workers of the Philippines.

[The publications referred to by Mr. Lewis are retained in the subcommittee file.]

[The prepared statement of Mr. Lewis follows:]

STATEMENT OF THE
INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION

ON THE U.S. SUGAR PROGRAM

BEFORE THE
SENATE SUBCOMMITTEE ON AGRICULTURAL
PRODUCTION AND STABILIZATION OF PRICES

MARCH 6, 1990

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to give our views on the U.S. sugar program and its prospective reauthorization in the Food and Agricultural Resources Act of 1990.

ILWU represents more than 6,000 workers in the Hawaii and California sectors of the U.S. sugar cane industries. In addition, I should state that I am authorized to speak here today not only for ILWU sugar workers but for more than 22,000 sugar beet, cane, and corn sweetener workers around the country who are members of the Seafarers International Union; the International Brotherhood of Teamsters; the International Association of Machinists; the Distillery and Allied Workers Union; the Oil, Chemical, and Atomic Workers Union; and the American Federation of Grain Millers.

More than 144,000 American jobs are directly bound up in the domestic sweetener industry. These jobs are located in the fields, mills, and refineries of 17 states. More than 200,000 additional jobs are indirectly related to the industry. I emphasize these figures at the outset because opponents of the sugar program like to claim that it benefits "only a few wealthy growers." The fact is that the production of sweetener is a major industry, and the workers who earn their livelihoods in it are as dependent on the sugar program as our employers.

The program as we know it was enacted in 1981 and reauthorized in 1985. On both occasions it was controversial, but its merits have remained essentially the same.

In technological sophistication and cultivation techniques, the U.S. sweetener industry is the most competitive in the world. On the level playing field of truly free competition, it can hold its own with any other producers. Speaking for Hawaii alone, we in ILWU can testify that the plantations there have for many years maintained a status as the state-of-the-art model in irrigation, soil management, strain development, planting, harvesting, refining, and disposal of waste. This sophistication and cost-efficiency has come largely at the price of thousands of jobs. We have fully cooperated with this process despite its cost in employment because we have always known that our industry could compete on the world market only if it were second to none in production efficiency. This continuous effort would allow us to hold our own in a truly competitive environment.

However, the "level playing field," in sugar as in many other commodities, simply does not exist today -- not because of actions taken by the U.S. government or by the domestic industry, but because of actions taken abroad. The U.S. sugar program is necessary because too many other countries artificially subsidize their sugar industries -- not only to compete in their domestic markets but also to dump sugar on the world market.

This subsidy takes two basic forms. One is direct government assistance, through direct financial subsidies and/or import restrictions, as exemplified by the European Community. The other is the artificial reduction of labor costs through a government policy of toleration -- and sometimes active support -- of outrageously low wages, inhuman working conditions, and systematic violation of internationally recognized labor rights.

You have already heard at length from expert witnesses on the impact of the EC's current sugar policy since it was initiated in the 1970s. As you know, the Community has changed from a net importer to a net exporter of sugar, and is now responsible for 50 percent of white sugar dumped on the world market. The effect of these unrestricted exports on world prices has been ruinous. Without repeating the details of the EC system here, it should be sufficient to observe that even the most strident opponents of the U.S. sugar program cannot accuse it of subsidizing the domestic industry to so great an extent that it meets all domestic sweetener demand _and_ dumps surplus sugar on the international market.

The long-term contract arrangements that exist between other sugar-producing countries, though not as blatantly unfair to the world industry as the EC program, also contribute to making the market less open to free competition on the basis of production efficiency. We believe this has also been thoroughly documented in the Subcommittee's record.

However, the connection between cheap labor, the violation of basic labor rights, and ongoing over-production of sugar has never received the public attention it deserves. Particularly now, when a primary rationale advanced by some opponents of the U.S. sugar program is its alleged social and economic costs to sugar-producing countries in the Caribbean Basin and the Far East, this aspect of the issue needs to be addressed.

Union members in the United States feel a solidarity second to none with our fellow workers abroad. We believe that U.S. foreign policy can and should benefit us all. A trade or agricultural policy option that would significantly improve the conditions of workers less fortunate than ourselves would have a powerful argument supporting it.

However, there is far more to the story of sugar workers in other countries than the U.S. sugar program. To accuse the program of depriving the working people of other regions of viable livelihoods is like blaming a quarantine for the onset of the disease.

Most proponents of opening the U.S. market to the unrestricted import of foreign sugar emphasize the price differential between the U.S. support level and the so-called world price. But few of these critics seem to give much thought to why that differential exists. Few now accuse the U.S. industry of being inefficient. Yet that price differential -- though highly exaggerated -- is real and significant.

Part of the cause lies, as noted, in the European Community's present dumping policy. But the other part lies in the brutal realities of sugar cultivation for workers in many countries that export sugar to the United States -- including some of those in the Caribbean, Latin America, and Asia who have complained the loudest in the past against the U.S. program. Although these realities are rarely publicized in the mass media, and although there are variations in the legal and practical specifics between individual countries, the information that is readily available paints an unmistakable picture. Workers in these countries are paid what amounts to slave-labor wages, or only slightly more. They are subjected to abominable working conditions and housing. And they are systematically harassed and repressed when they attempt to organize and bargain with their employers. Government toleration of these oppressive conditions is the norm, and in most cases government policy and military personnel actively help to maintain them. Far too often, moreover, U.S. foreign policy actively assists, rather than resists, this policy.

The Dominican Republic -- which receives the single largest allocation of the U.S. sugar import quota -- is a prime example. Of the twelve sugar mills currently operating in that country, nine belong to a state-owned association, the State Sugar Council (CEA). Until recently, the director of the CEA was the national Vice President; its current director is the former Minister of Agriculture.

Thousands of cane cutters for the Dominican sugar mills are routinely imported from the neighboring country of Haiti, because too few Dominicans are willing to do the work under present conditions. From 1952 to 1986, much of this labor importation was conducted through annual government-to-government contracts, but the provisions in these contracts concerning standards for pay and working conditions were never enforced. Since the fall of the Duvalier regime, these contracts have not been extended, but the CEA continues to press the Haitian government to resume them.

Today, many Haitian caneworkers -- some only in their early teens -- are lured to the Haiti-D.R. border through false promises by the CEA, which has agents in Haiti. They are then taken -- often by force -- to the work camps by Dominican military personnel. In addition, thousands of Dominican citizens and residents of Haitian descent, and even some Haitian citizens living on the Haiti side of the D.R.-Haiti border, are forcibly conscripted from their villages each year. Many of these victims are children as young as 13. The national federation of Dominican truck owners has confirmed that the Dominican government actually pays a driver's fee of a fixed amount per conscripted worker transported. In the early 1980s, official documents proving the military's role in this mass kidnapping were printed in the Dominican press. Since then, high-ranking military officers have confirmed their involvement. The ongoing policy of conscripting resident Haitians has also been condemned by the Conference of Dominican Bishops.

Upon arrival at the work camps, conscripted workers are forced to work under armed guard. Those who refuse are simply incarcerated in jail cells until they submit. Working and living conditions, for migrant and resident workers alike, are predictably terrible: cane-cutters work 12-hour days from dawn to dusk, usually seven days a week, with little or no food and water provided. The barracks and shacks in which workers are housed provide no water, electricity, or even latrines; disease is rampant and health care nonexistent. Pay averages around 12 pesos -- $1.50 -- a day, below even the Dominican legal minimum wage of about $3.00 a day. Pay is often issued in the form of vouchers, and until these are cashed workers are forced to purchase food from their employers on credit, at rates of up to 25% interest. This economic serfdom keeps many Haitian workers from ever returning to their homes even after the harvest season, when they are permitted to leave; about 100,000 such workers and their families now live on the plantations year-round.

Those attemps that have been made to organize Dominican cane-cutters have been suppressed by mass firings and physical violence, harassment, and even murder, or thwarted by anti-union labor laws. Strikes are illegal unless they result from an employer violation of a collective bargaining contract. But no contract can be negotiated unless a union has been formally registered with the Ministry of Labor as a bargaining agent. To qualify for registration at a given workplace, a union must have a membership of more than 61 percent of the workers. In addition, the Ministry of Labor can deny registration on the basis of almost any past organizing activities, and it has already refused to register at least two caneworkers' unions. The upshot is that no fieldworkers in the Dominican Republic are represented by bona fide unions.

Mill workers fare only marginally better than cane cutters. Last year, for example, in a typical purge, the state sugar association fired 62 union leaders at two large mills (Rio Haina and Consuelo) for seeking compliance with the minimum wage laws.

For those Subcommittee Members who care to check this brief description, we cite Haitian Sugar-Cane Cutters in the Dominican Republic (1989) by Americas Watch, the National Coalition for Haitian Refugees, and Caribbean Rights Report; Sugar and Modern Slavery by Roger Plant (1987); Bitter Sugar, by Maurice Lemoine (1985); and ILO Official Bulletin, Vol. LXVI (1983). We can also offer to the Subcommittee a graphic, one-hour visual documentary on the conditions of fieldworkers in the Dominican Republic called Black Sugar, produced by OXFAM.

The Philippines, which enjoys the second largest U.S. allocation for sugar imports, is another glaring example of competitiveness founded on unconscionable exploitation of workers. Both before and after the fall of the Marcos regime, the island of Negros, the country's primary sugar-producing region, has been virtually a feudal preserve for growers. Over the last three years, the role of suppressing workers' organizing efforts has shifted from the state and national police to the private vigilante groups maintained by the growers themselves. But this suppression remains as effective and brutal as before. The living conditions of sugar workers also remain as poor as ever, and in many cases are even worse.

The National Federation of Sugar Workers, which represents approximately 50,000 field and mill workers in Negros, has been under vicious attack ever since it was founded in 1971. Since 1986, scores of workers -- particularly union leaders -- have been murdered for being active in the union; hundreds of others have been arrested, abducted, harassed, or threatened. Union offices are routinely raided, usually on the pretext that the union or its offices are fronts for anti-government guerrilla forces.

Even before the shift of the American beverage industry from sugar to corn sweetener, the general recession in the world sugar industry, and other local factors caused a severe cutback in sugar acreage in Negros, the conditions of Filipino sugar workers were abysmal. Minimum legal wages for field workers are still less than $2.00 a day, even after the mandatory increase enacted by the Philippine Congress last spring. Most agricultural workers are actually paid much less than the legal minimum, as the U.S. State Department acknowledged in its report on human rights abroad for 1988. Only last year, a task force appointed by the governor of Negros reported that more than 60 percent of Negros sugar employers violate the minimum wage laws.

Further data confirming this brief profile is available from published reports by the International Labor Organization, the Lawyers Committee for Human Rights, the Philippine Senate, the International Union of Food and Allied Workers, and the Philippines press.

The import allocations for the Dominican Republic and the Philippines alone comprise nearly one-third of the entire

U.S. sugar quota. But other countries in Latin America now pressing for broader access to the U.S. sugar market have also developed their sugar industries at the cost of their workers' most basic welfare. In Brazil, El Salvador, Guatemala, and Honduras, the pattern is largely the same: wage rates are a small fraction of the minimum U.S. wage -- $5 a day or less -- and union members and their families are the victims of ongoing violence.

We do not emphasize these grim facts because we expect the 1990 Farm Bill to correct them, although we would favor labor-rights eligibility criteria for each country's quota allocation, similar to those Congress has already attached to the Generalized System of Preferences, the Overseas Private Investment Corporation, and Section 301 unfair trade practices. We cite this information because Congress and the American public need to understand what U.S. sugar workers are up against, and why the U.S. sugar program amounts to no more than a limited counter-measure. You also need to understand that the rationale of "assisting neighboring countries in the Caribbean, Latin America, and Asia" by allowing U.S. consumers to benefit from cheaper imported sugar, would not translate into improving the lives of the working people abroad who produce this sugar. Rather, eliminating or gutting the sugar program, or expanding the import quota allocations of these countries, would only create a windfall for large foreign employers and their governments.

This does not mean that the U.S. sweetener industry can compete in the world market only if workers abroad receive wages equal to U.S. payscales. We recognize that less developed countries cannot now emulate the United States in pay or working conditions. Our industry is efficient enough to overcome foreign pay differentials, even significant ones. But it cannot compete with the feudal conditions that prevail in many of these countries. As a rule of thumb, Congress can assume that we will be able to hold our own against any sugar-producing country that allows its workers to bargain collectively with their employers and does not subsidize its growers in other ways. But until the working people of these countries are allowed to organize their own unions -- and we mean free, bona fide unions, not employer-dominated fronts that serve for international public relations -- and until they receive more than the absolute minimum in pay and living conditions necessary to keep body and soul together, U.S. sugar workers will remain at an unfair competitive disadvantage, and the U.S. sugar program will be justified.

Lest anyone think we might be mis-stating the primary interests of our fellow workers abroad, we note for the Subcommittee's record that the National Federation of Sugar Workers of the Philippines has taken a position in opposition to any increase in the Philippines' U.S. sugar import allocation until labor rights are protected and fundamental land reform is implemented in Negros -- that is, until Filipino sugar workers are able to share in the benefit of any quota increase.

Those who sincerely want to help impoverished sugar workers in other countries need to understand that the real way to improve the standard of living abroad is the same as it has always been in the United States: protect workers' right to organize and require employers in agribusiness to provide a decent living to their workers. There is much that U.S. foreign and trade policy could do to help in this regard. Our foreign aid, military assistance, and trade privileges should be much better correlated to these goals, and less emphasis should be given to supporting undemocratic and anti-labor governments which have no more to recommend them than uncritical support for the U.S. side of a superpowers' rivalry.

Those who want to reduce food prices for American consumers should also recognize that reducing the domestic price of sugar would contribute almost nothing to this goal. This follows because 80 percent of the sweetener produced in the United States goes to consumers not directly but through processed food -- particularly ice cream, candy, baked goods, and soft drinks. The prices for these foods have risen many times in the past when sweetener prices increased, but they have never come down when sweetener prices declined -- a reflection of the control the sugar-consuming industries enjoy over market prices. To expect a different result from gutting the domestic sugar program is to ignore history: the food processors would once again pocket the savings from any temporary reduction in sugar prices, not pass them along to shoppers at the supermarket. Moreover, any temporary reduction in sugar prices that might follow an influx of foreign sugar would end as soon as the domestic industry disappeared and U.S. consumers became totally dependent on foreign imports.

The details of the sugar program itself have already been thoroughly explored by your Subcommittee, and we need not repeat them at length. However, we emphasize these key points: The program is, and is statutorily required to be, operated at no cost to taxpayers; it consists of nonrecourse loans that are repaid with interest to the Treasury. The quota on imports which prevents forfeitures under the program from occurring is adjusted annually, and has been significantly expanded in recent months to the benefit of many other sugar-exporting countries. The loan support level under the program has protected only the most efficient producers, and has remained unchanged for six years. A small increase in the loan rate after so long a period would be more than justified. Other changes in the program that may be necessary in view of GATT requirements regarding marketing controls, shortfall, and quota allocations should be fair to all sectors of the sweetener industry.

In conclusion, we urge the Subcommittee and Congress to extend the U.S. sugar program with such changes as are necessary to give domestic producers the protection they deserve. Failure to extend the program at an adequate support level will jeopardize American jobs, injure consumers, aggravate U.S. dependence on foreign imports, and sacrifice a key industry in the American agricultural community.

Senator **Conrad**. Senator Boschwitz would like a chance to take a look at the publications.

We have now been joined by my colleague, Senator Cochran. Welcome Thad, good to have you here. We appreciate your coming.

Let me ask Mr. Trotter this question. What percentage of corn produced in this country is going into the sweetener market?

Mr. **Trotter**. Currently we are at 600 million bushel and we have an 8 billion bushel crop. So that roughly would be 7.5 percent.

Senator **Boschwitz**. 7.5 percent.

Senator **Conrad**. What is the effect of that usage on corn prices? In other words, if there were not that domestic sweetener market and world sweetener market, what would the effect be on corn prices? Do you have an estimate for that?

Mr. **Trotter**. Well, right now, of course, you have probably heard about our quarter backer program. The corn sweeteners represent 25 cents per bushel of the corn farms today, and that is the figure that we use.

Senator **Conrad**. Twenty-five cents a bushel. So the clear message here is that the sugar program assists corn growers as well as those who directly produce sugar. We are also talking about 25 cents a bushel on every bushel of corn. That is $2 billion on the 8 billion bushels of corn?

Mr. **Trotter**. That is right.

Senator **Conrad**. And the 25 cents on 8 billion bushels is $2 billion? Is that important to farmers?

Mr. **Trotter**. That is not even a profit margin now for corn farmers, so that is very very important that 25 cents. It probably has a larger impact than you can imagine.

Senator **Conrad**. Pat, you indicated that there was a need to increase the loan rate from the current 18 cents to 20 cents. Some would say sugar beet growers are already getting a higher return on their invested dollar than others. Is that the case from your perspective and how do you justify going to 20 cents?

Mr. **Mahar**. Well, Senator, the cost of production as I have stated in my testimony and summary that in 1984 it was at $592, and our costs have increased as much as 24 percent through 1988 when we have done our most recent cost of production study. And it was done by our USDA enumerators here in Washington and very thoroughly done with our growers, and we have a lot of confidence in that, and that is what we are basing our basis for an increase in the loan rate. And the cost of production is only showing that we on a national level are only receiving a $35 per acre profit. If I consider that a return on investment, I think it is very small.

Senator **Conrad**. I think that is an important point to be made here.

Senator Boschwitz.

Senator **Boschwitz**. I share those views about the importance of sugar in the corn business and note that even after the use of the corn, that it still has some supplementary value as feed. I have not seen these accusations. I will be interested and try to come back, Mr. Chairman, for the response which I presume will be forthcoming from your international views, panel 4, the Ambassador of Belize and also the gentleman from the Philippines.

But are you stating, Mr. Lewis, that these folks do not want these jobs? That they would rather that we not give them the sugar quotas?

Mr. **Lewis**. As a matter of fact, Mr. Chairman, the National Federation of Sugar Workers of the Philippines has for several years taken a formal position that they are opposed to the allocation of the Philippines for sugar imports into the United States being increased until there is fundamental human rights reform and land reform in the Philippines.

Before this hearing, although I knew of that position, I made a point of asking one of their high ranking officials, do you want me to give this position added publicity in a forum such as this one? And he said, yes, go ahead. I said, are you afraid——

Senator **Boschwitz**. I do not know that particular group, but tell me about the folks who are out there working at it. What are they going to do instead, in the event that they get no sugar quota at all? There is a factory there that they work at or——

Mr. **Lewis**. Where are we talking about now?

Senator **Boschwitz**. The Philippines or in the Dominican Republic.

Mr. **Lewis**. There are many plantations, yes. There is an industry there, but I would suggest that it is a condition in which workers are forced to live and work right now. It is only marginally better than being unemployed, in many cases. In fact, in the absence of sugar production in the Philippines, many of the workers have attempted to establish small plots of land for themselves growing food crops which enable them to subsist better than they were before.

I have not taken a poll and I do not have an account of every single worker in this country, but the point I want to emphasize here——

Senator **Boschwitz**. One does not have to take a poll of every single worker, but are they better off with or without the sugar quota? I mean, if they are better off without it, that would be a strong argument that we who have put forth the sugar program could make with some of our colleagues. We will go and tell Senator Bradley, who I noticed recently brought something up in the Committee on Finance to undermine the sugar program as it now exists and some of our other colleagues.

Mr. **Lewis**. I think it would be better, Senator, to introduce some labor rights criteria into the program, as in fact Congress has already done in several different context to have the best of both worlds. We do not object to other countries importing sugar into the United States, and we would like the sugar workers of those countries to benefit from that industry.

Basically the point is that they are not benefiting significantly, but their employers are now.

Senator **Boschwitz**. Well, as you noticed in our relationships with the Philippines that we having considerable problems when we try to attempt to try to tell them what to do. I do not know specifically about the Dominican Republic, but it is all we can do to keep our bases in the Philippines, much less begin telling them how to treat their people. I am sure that they would take offense to that.

We will look into this a little bit and try to get a broad assessment of views, because, very frankly, if you can make this point properly, you would strengthen our hand with respect to retaining or maintaining the sugar program here in the United States.

Mr. LEWIS. Most certainly. The context in which this was brought up, as I said, was to show what U.S. workers are up against.

Senator BOSCHWITZ. Despite that, I think that U.S. workers are still more efficient and that our cost production from my understanding, is lower than it is in either one of those places, the Dominican Republic or the Philippines. Do you have extra copies of this?

Mr. LEWIS. Yes, I do. The other publication, I do not, but you are welcome to borrow it.

Senator BOSCHWITZ. This one you have?

Mr. LEWIS. That is the one you can have, yes.

Senator BOSCHWITZ. This one you do not?

Mr. LEWIS. Right.

Senator BOSCHWITZ. Thank you, Mr. Chairman.

Senator CONRAD. Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you. I am glad to have a chance to hear some of the testimony this morning at the hearing. I think this is one of those programs that attracts a lot of attention not only from producers, processors and users here in the United States, but from those who are affected by U.S. policy outside the United States. I think we need to be very careful and thoughtful as we approach the obligation of writing the provisions of this new farm bill, as they relate to the sugar program.

I want to thank the panel for being here to help us understand all of the new options and implications of the provisions that we are considering, including in the 1990 bill. Even though I do not come from a sugar producing State, we do use it and we are interested in having a sound agricultural policy all across the spectrum, and so we take this part of our obligation very seriously. Thank you, Mr. Chairman.

Senator CONRAD. Thank you, Senator Cochran.

Senator BOSCHWITZ. I would hope that you were able to submit some better material than this. "As the last dew slowly vanished from the sugarcane leaf sugar workers were already soaked with sweat, their hands were already numb in the early hour of the day, while their landlords still hugged the satin case pillows of their waterbeds." [Laughter.]

Mr. LEWIS. Well, Senator, I think we can look beyond the rhetoric.

Senator BOSCHWITZ. "And when the landlords finally woke up to enjoy their first cup of freshly brewed coffee on silver platters, the workers in the cane fields had just finished their measly breakfast of rice and salt." Is this a political tract or does this deal with the facts?

Mr. LEWIS. You will find some additional objective data submitted in that publication, as well, Senator. But in addition to that I can refer you to several other sources here, including the International Labor Organization, the Lawyers Committee for Human

Rights, the Philippine Senate, and the International Union of Food and Allied Workers, as well as the Philippine press.

Senator **Boschwitz**. Well, I would look at some of that material in the event you submit it.

Mr. **Lewis**. I will be glad to.

Senator **Boschwitz**. But please do not submit "Death from the hands of the fascists landlords." Do not submit this kind of stuff.

Mr. **Lewis**. Senator, I do not think the rhetoric should necessarily detract from the substantive information that you will find in the publication.

Senator **Boschwitz**. The rhetoric makes suspect the substantive facts that are in this kind of a thing. How do you separate the rhetoric from the facts. Am I supposed to accept the facts and lay aside the rhetoric? Are the same guys that are writing the facts or at least assessing the facts assessing the rhetoric, or not assessing but rather writing the rhetoric? Pretty good rhetoric I might say. [Laughter.]

Senator **Conrad**. In fact, those guys are working on a recent Boschwitz campaign brochure. [Laughter.]

Maybe not.

Senator **Boschwitz**. I may need them.

Senator **Conrad**. I want to thank this panel very much for your contribution.

We will move to a panel representing processors and users—Mr. Ron Hayes, the president of the American Crystal Sugar Company; Mr. John Couch, Chairman of the Board of the Hawaiian Sugar Planters' Association; and Mr. Thomas Hammer, the president of the Sweetener Users Association.

Senator **Boschwitz**. Mr. Chairman, I note that Owen Gustafson is here. He is a leader of a group called FAIR FARM POLICY. This is a group of corn, soybean, and wheat farmers who are opposed to the American sugar program and I have met with them. I have argued with them, as a matter of fact. I know that you have told me that by the time that they sought to be among the witnesses, that the witness list had already been filled. And I see it is a long witness list, indeed, but I would hope that they would be able to submit a prepared statement, so that their views would be made an official part of the record and known to us.

Senator **Conrad**. Absolutely. Any group who is here that has testimony that they would like to provide for the record, we will leave the record open for 10 days, so that may be submitted and will be made a formal part of the record. As you can imagine, we had many who sought to testify, many more than we could accommodate. We already have, as Senator Boschwitz noted, a very lengthy witness list, but that was necessary in order to attempt to provide an audience for those who had made their requests early.

Senator **Boschwitz**. Jim, I am going to go back to the Formulations Committee, but I will come back again. Thanks.

Senator **Conrad**. All right. We appreciate your being here, Senator Boschwitz.

Ron, welcome, good to have you here. If you would proceed with your testimony, and then we will go to the other members of the panel and then have a chance for questions.

STATEMENT OF RONALD G. HAYES, PRESIDENT, AMERICAN CRYSTAL SUGAR CO., MOORHEAD, MN

Mr. **Hayes**. Thank you. I have summarized my comments to shorten it up.

INTRODUCTION

I am Ronald Hayes, president of the American Crystal Sugar Company, a farmer-owned cooperative in the business of processing sugar beets in Minnesota and North Dakcta.

RECOMMENDATIONS

It is on their behalf I call on this committee to recommend the U.S. Senate approve a 5-year extension of the current sugar program as part of the 1990 farm legislation, including the no cost provision and providing for a requirement the term of Commodity Credit Corporation loans on sugar shall be 9 months.

Additionally, we urge the committee to make it clear that it expects the administration to take such steps as are authorized to stem the flood of sugar-containing products and sugar blends being imported in clear efforts to circumvent the sugar quota system and destroy the effectiveness of the program.

Also, we are not unmindful that some guaranteed access to the U.S. sugar market by foreign suppliers may be required. We have considered this matter carefully and acknowledge a minimum access level could be incorporated in this legislation.

Finally, we call on the committee to recommend a fair, reasonable, and overdue increase in the basic price support loan rate.

THE SUGAR PROGRAM IS A FARM PROGRAM

The sugar program is a farm program. It is not a foreign aid program and while it is used from time to time as a foreign policy tool, its primary function is to insulate U.S. sugar producers, as well as consumers, from the unfair, undependable and unstable world "dump" sugar market.

Virtually every country in the world has a similar program or policy for the same reasons.

Sugar has been outlined as one of the four basic commodities this country needs to import to meet U.S. consumer requirements, and, it is true, a certain amount of sugar must be imported in order for the sugar program to be administered successfully at no cost to the U.S. Treasury. We are all aware, of course, that the sugar program is not without its critics.

CRITICS

Critics of recent, modest increases in U.S. sugar beet production and those who fret about decreased U.S. sugar imports, choose to ignore the fact that we are not even maintaining our share of the global sugar market.

They simply point to the levels of foreign sugar imports in the 1975–81 period, when the annual average was 4.4 million short tons, and they compare that with the 1.1 million short tons imports under the last 3 years. They ignore the simple fact that U.S. sugar consumption is down 2.4 million tons for the same period.

This means 73 percent of the decline in sugar imports is due, not to the expansion in U.S. sugar production, but to the growing acceptance of corn-based sweeteners, a phenomenon that provides a market for an extra 570 million bushels of corn each year and adds an estimated 25 cents a bushel to the value of all the corn produced for grain in the United States.

Some critics maintain the current sugar program results in high sugar prices for consumers. The fact is, U.S. sugar prices are reasonable, fair, stable, and at about the average for other developed, industrialized nations.

GATT

The rules governing international agricultural trade are currently under consideration in the GATT round. To change the program at this time by focusing on peripheral issues such as guaranteed market access, minimum import quotas, marketing and production controls, tariffication, or other schemes that may, or may not, be GATT compliant when the new rules are written, constitutes unilateral disarmament insofar as sugar is concerned and weakens the position of our negotiators in Geneva.

In the meantime, I indicated we believe there is a logical and compelling data in support of a reasonable increase in the basic loan level rate for sugar.

CROP STUDY

The 1988 crop study shows the national average return to sugar beet growers on their total economic input was 4.3 percent. Even this number is exaggerated on the high side because some 30 percent of beet sugar production comes from grower-owned facilities and the returns to these farmers reflects not only the value of the sugar beets that they deliver, but their return on their investment of more than $1 billion in sugar beet processing facilities. In three of the seven sugar beet growing areas where the processing facilities are not owned by the farmers, they actually had a negative return on their equity, and that is for the 1988 crop study.

THE BEET SUGAR INDUSTRY IS A VITAL LINK IN THE ECONOMIC STRUCTURE OF A GREAT MANY COMMUNITIES ACROSS RURAL AMERICA

As we well know, Mr. Chairman, the beet sugar industry is a vital link in the economic structure of a great many communities across rural America. In fact, in a recent analysis of the U.S. sugar and sweetener industry, the British-based firm of Landell Mills concluded that income of nearly $4.5 billion annually is generated within the U.S. beet industry.

When combined with the sugarcane and corn sweetener sectors, total sweetener revenues constitute close to $18.5 billion in economic activity every year. That represents a lot of wages earned, a lot of taxes paid, and a lot of inputs purchased from around the country, whether they enter the factory gate or the farm gate.

From firsthand experience, Mr. Chairman, I can report to this committee that the beet sugar industry has been the critical economic difference for many small towns in western Minnesota and eastern North Dakota. If not for the income from sugar beets, I shudder to think how many more main street store fronts may have been boarded up, how many more community banks may have failed, how many more schools may have shut their doors, or how many more miles now separate rural families from the nearest doctor or the hospital.

CONCLUSION

In closing, I wish to thank the committee for this opportunity to testify, and if there are any questions, I will do my best to respond. Thank you again.

[The prepared statement of Mr. Hayes follows:]

TESTIMONY BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY, SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

TUESDAY, MARCH 6, 1990 9:30 A.M.

WITNESS: RONALD G. HAYES, PRESIDENT
AMERICAN CRYSTAL SUGAR COMPANY
MOORHEAD, MINNESOTA

MR. CHAIRMAN, MY NAME IS RONALD G. HAYES AND I'M PRESIDENT OF THE AMERICAN CRYSTAL SUGAR COMPANY, A FARMER-OWNED COOPERATIVE IN THE BUSINESS OF PROCESSING SUGARBEETS IN MINNESOTA AND NORTH DAKOTA.

IT'S IN THEIR BEHALF I CALL ON THIS COMMITTEE TO RECOMMEND THE U.S. SENATE APPROVE A FIVE YEAR EXTENSION OF THE CURRENT SUGAR PROGRAM AS PART OF 1990 FARM LEGISLATION, INCLUDING THE "NO COST" PROVISION, AND PROVIDING FOR A REQUIREMENT THE TERM OF COMMODITY CREDIT CORPORATION LOANS ON SUGAR SHALL BE NINE MONTHS. ADDITIONALLY, WE URGE THE COMMITTEE MAKE IT CLEAR IT EXPECTS THE ADMINISTRATION TO TAKE SUCH STEPS AS ARE AUTHORIZED TO STEM THE FLOOD OF SUGAR-CONTAINING PRODUCTS AND SUGAR BLENDS BEING IMPORTED IN CLEAR EFFORTS TO CIRCUMVENT THE SUGAR QUOTA SYSTEM AND DESTROY THE EFFECTIVENESS OF THE PROGRAM.

ALSO, WE ARE NOT UNMINDFUL THAT SOME GUARANTEED ACCESS TO THE U.S. SUGAR MARKET BY FOREIGN SUPPLIERS MAY BE REQUIRED. WE HAVE CONSIDERED THIS MATTER CAREFULLY AND ACKNOWLEDGE A MINIMUM ACCESS LEVEL COULD BE INCORPORATED IN THIS LEGISLATION

FINALLY, WE CALL ON THE COMMITTEE TO RECOMMEND A FAIR, REASONABLE AND OVERDUE INCREASE IN THE BASIC PRICE SUPPORT LOAN RATE.

THE SUGAR PROGRAM IS A FARM PROGRAM. IT IS NOT A FOREIGN AID PROGRAM AND, WHILE IT IS USED FROM TIME TO TIME AS A FOREIGN POLICY TOOL, ITS PRIMARY FUNCTION IS TO INSULATE U.S. SUGAR PRODUCERS AS WELL AS CONSUMERS FROM THE UNFAIR, UNDEPENDABLE AND UNSTABLE WORLD "DUMP" SUGAR MARKET.

VIRTUALLY EVERY COUNTRY IS THE WORLD HAS A SIMILAR PROGRAM OR POLICY FOR THE SAME REASONS.

SUGAR IS ONE OF ONLY FOUR BASIC COMMODITIES THIS COUNTRY NEEDS TO IMPORT TO MEET U.S. CONSUMER REQUIREMENTS AND, IT IS TRUE, A CERTAIN AMOUNT OF SUGAR MUST BE IMPORTED IN ORDER FOR THE SUGAR PROGRAM TO BE ADMINISTERED SUCCESSFULLY AT NO COST TO THE U.S. TREASURY. SOME FOREIGN PRODUCERS BASE THEIR CLAIM TO A PORTION OF THIS COUNTRY'S SHRINKING SUGAR MARKET ON THEIR OWN ECONOMIC NEEDS AND, SURELY, WE ARE NOT UNMINDFUL OR UNSYMPATHETIC TO THEIR PLIGHT. HOWEVER, TO INSIST THIS COUNTRY MUST CONTINUE TO IMPORT

MORE SUGAR THAN IT NEEDS IS THE KIND OF REASONING THAT WOULD SUGGEST, IN THE EVENT RESEARCHERS DEVELOPED A READILY AVAILABLE, ALTERNATIVE SOURCE OF FUEL, INTERNATIONAL OBLIGATIONS WOULD REQUIRE THE U.S. TO CONTINUE TO IMPORT HUGE QUANTITIES OF OPEC CRUDE OIL, EVEN IF IT MEANT CLOSING DOWN WHAT REMAINED OF THE DOMESTIC PETROLEUM INDUSTRY.

WE ARE ALL AWARE, OF COURSE, THAT THE SUGAR PROGRAM IS NOT WITHOUT ITS CRITICS.

THERE ARE THOSE WHO CLAIM THE CURRENT PROGRAM IS TOO GENEROUS AND HAS STIMULATED EXPANSION IN THE BEET SUGAR INDUSTRY. THE FACT IS, MR. CHAIRMAN, DURING THE EIGHT YEARS (1982-1989) THE SUGAR PROGRAM HAS BEEN PART OF GENERAL FARM LEGISLATION, BEET SUGAR PRODUCTION HAS AVERAGED 2.75% BELOW WHAT IT WAS DURING THE SEVEN PRIOR YEARS (1975-1981) WHEN THERE WAS ESSENTIALLY NO SUGAR PROGRAM IN EFFECT.

IN FIVE OF THE EIGHT YEARS UNDER THE CURRENT PROGRAM, BEET SUGAR PRODUCTION HAS ACTUALLY DECLINED FROM THE PREVIOUS YEAR'S LEVEL.

DURING THE 1975-81 PERIOD, THE NUMBER OF BEET SUGAR PROCESSING FACILITIES IN OPERATION IN THE U.S. DECLINED FROM 56 TO 43. SINCE THE SUGAR PROGRAM WAS ENACTED AS PART OF 1981 GENERAL FARM LEGISLATION, SEVEN MORE FACILITIES HAVE BEEN CLOSED.

IT'S TRUE THAT IN THE LAST THREE YEARS U.S. PRODUCTION OF BEET SUGAR HAS AVERAGED SOME 10.3% HIGHER THAN IT WAS IN 1975-81, DUE PRIMARILY TO IMPROVED EFFICIENCIES MADE BY OUR GROWERS AND IN OUR PROCESSING FACILITIES. IT'S ALSO TRUE, HOWEVER, THE NATIONS HOLDING SHARES IN THE U.S. MARKET THROUGH THE QUOTA IMPORT PROGRAM HAVE INCREASED THEIR PRODUCTION BY 16% DURING THE SAME PERIOD (1987-89 AS COMPARED WITH 1975-81).

IT'S ALSO TRUE WORLD SUGAR PRODUCTION HAS INCREASED 23% DURING THE SAME PERIOD.....AN EXPANSION RATE MORE THAN DOUBLE THAT OF BEET SUGAR IN THE UNITED STATES.

CRITICS OF RECENT, MODEST INCREASES IN U.S. BEET SUGAR PRODUCTION AND THOSE WHO FRET ABOUT DECREASED U.S SUGAR IMPORTS, CHOOSE TO IGNORE THE FACT WE AREN'T EVEN MAINTAINING OUR SHARE OF THE GLOBAL SUGAR MARKET.

THEY SIMPLY POINT TO THE LEVELS OF FOREIGN SUGAR IMPORTS IN THE 1975-81 PERIOD, WHEN THE ANNUAL AVERAGE WAS 4.4 MILLION SHORT TONS, AND COMPARE IT WITH THE 1.1 MILLION TON AVERAGE IMPORTS UNDER QUOTA IN THE LAST THREE YEARS. THEY IGNORE THE SIMPLE FACT U.S. SUGAR CONSUMPTION IS DOWN 2.4 MILLION TONS FOR THE SAME PERIOD.

THIS MEANS 73% OF THE DECLINE IN SUGAR IMPORTS IS DUE, NOT TO EXPANSION IN U.S. SUGAR PRODUCTION, BUT TO THE GROWING ACCEPTANCE OF CORN-BASED SWEETENERS, A PHENOMENON THAT PROVIDES A MARKET FOR

AN EXTRA 570 MILLION BUSHELS OF CORN EACH YEAR AND ADDS AN ESTIMATED 25 CENTS A BUSHEL TO THE VALUE OF ALL THE CORN PRODUCED FOR GRAIN IN THE U.S.

SOME CRITICS MAINTAIN THE CURRENT SUGAR PROGRAM RESULTS IN HIGH SUGAR PRICES FOR CONSUMERS. THE FACT IS, U.S. SUGAR PRICES ARE REASONABLE, FAIR, STABLE AND AT ABOUT THE AVERAGE FOR OTHER DEVELOPED, INDUSTRIALIZED NATIONS. FURTHER, U.S. SUGAR PRICES REFLECT (OR NEARLY REFLECT) U.S. PRODUCTION COSTS AND, WHILE THERE ARE SOME COUNTRIES THAT CAN PRODUCE SUGAR CHEAPER, THEY DO IT BY PAYING THEIR PLANTATION WORKERS TWO OR THREE DOLLARS A DAY AND FORCING THEM TO WORK IN SLAVE-LIKE CONDITIONS.

ACCORDING TO A STUDY PUBLISHED BY THE U.S. DEPARTMENT OF AGRICULTURE, OF THE 31 NATIONS IN THE WORLD THAT PRODUCE BEET SUGAR, THIS COUNTRY HAS THE SEVENTH LOWEST PRODUCTION COSTS.

OTHER CRITICS CLAIM OUR SUGAR IMPORT QUOTA SYSTEM IS ILLEGAL UNDER THE RULES OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE AUSTRALIANS, WHO DEVELOPED THEIR SUGAR INDUSTRY BEHIND A TOTAL IMPORT EMBARGO THAT LASTED 74 YEARS, CHALLENGED THE U.S. QUOTA SYSTEM AND A GATT DISPUTES PANEL DETERMINED THE ADMINISTRATION HAD SELECTED THE WRONG AUTHORITY TO IMPOSE THE QUOTAS, BUT DID NOT QUESTION OUR RIGHT TO IMPOSE THEM.

THE RULES GOVERNING INTERNATIONAL AGRICULTURAL TRADE ARE CURRENTLY UNDER CONSIDERATION IN THE URUGUAY ROUND OF THE GATT. THIS COUNTRY'S SWEETENER PRODUCING INDUSTRY WAS THE FIRST TO ENDORSE THE REAGAN ADMINISTRATION'S PROPOSAL TO PHASE OUT ALL TARIFF AND NON-TARIFF BARRIERS TO COMMODITY TRADE ON A CONCURRENT, MULTI-LATERAL BASIS. WE BELIEVE LEAVING THE SUGAR PROGRAM INTACT IN THE 1990 FARM BILL WILL STRENGTHEN THE POSITION OF OUR NEGOTIATORS IN THIS REGARD.

TO CHANGE THE PROGRAM AT THIS TIME BY FOCUSING ON PERIPHERAL ISSUES SUCH AS GUARANTEED MARKET ACCESS, MINIMUM IMPORT QUOTAS, MARKETING AND PRODUCTION CONTROLS, "TARIFFICATION", OR OTHER SCHEMES THAT MAY - OR MAY NOT - BE GATT COMPLIANT WHEN THE NEW RULES ARE WRITTEN, CONSTITUTES UNILATERAL DISARMAMENT INSOFAR AS SUGAR IS CONCERNED AND WEAKENS THE POSITION OF OUR NEGOTIATORS IN GENEVA.

WHEN THE NEGOTIATIONS ARE OVER AND THE U.S. TRADE REPRESENTATIVE AND HER TEAM COME HOME WITH AN AGREEMENT DEMONSTRATING THE REST OF THE WORLD'S SUGAR PRODUCING NATIONS ARE PREPARED TO MARCH WITH US, LOCK STEP, TOWARD FREE AND FAIR TRADE, ADMINISTRATION SPOKESMEN HAVE INDICATED THEY WILL COME TO YOU SEEKING CHANGES IN THE U.S. SUGAR PROGRAM. WE AGREE THAT WILL BE THE TIME TO WEIGH THEIR SUCCESSES AND CONSIDER CHANGING THE PROGRAM, INCLUDING A

FAIR AND REASONABLE RESPONSE TO FOREIGN PRODUCERS WHO WANT A GUARANTEED MINIMUM ACCESS TO THE U.S. MARKET, DOMESTIC PRODUCTION CONTROLS, AND OTHER FACTORS.

IN THE MEANTIME, I INDICATED WE BELIEVE THERE IS LOGICAL AND COMPELLING DATA IN SUPPORT OF A REASONABLE INCREASE IN THE BASIC LOAN LEVEL FOR SUGAR. BACK IN 1985, THE LOAN RATE WAS SET AT 18 CENTS PER POUND, RAW VALUE, AND THE SECRETARY OF AGRICULTURE WAS GIVEN AUTHORITY TO INCREASE THE LOAN RATE BASED ON SUCH FACTORS AS HE "DETERMINES APPROPRIATE," INCLUDING CHANGES IN PRODUCTION COSTS.

A REVIEW OF THE U.S. AGRICULTURE DEPARTMENT'S COST OF PRODUCTION STUDIES FOR SUGARBEETS SHOWS THAT BETWEEN 1985 AND 1988 (THE LAST CROP FOR WHICH THE STUDY IS COMPLETE), PER ACRE SEED COSTS INCREASED 38.7 PERCENT, CHEMICAL COSTS WENT UP 33.8 PERCENT, AND FERTILIZER COSTS JUMPED 16.7 PERCENT. IN ALL, TOTAL VARIABLE CASH EXPENSES PER ACRE OF SUGARBEETS INCREASED 34 PERCENT BETWEEN THE 1985 AND 1988 CROPS.

THE 1988 CROP STUDY SHOWS THE NATIONAL AVERAGE RETURN TO SUGARBEET GROWERS ON THEIR TOTAL ECONOMIC INPUT WAS 4.3 PERCENT. AND EVEN THIS NUMBER IS EXAGGERATED ON THE HIGH SIDE BECAUSE SOME 30 PERCENT OF BEET SUGAR PRODUCTION COMES FROM GROWER-OWNED FACILITIES AND THE RETURNS TO THESE FARMERS REFLECTS NOT ONLY THE VALUE OF THE SUGARBEETS THEY DELIVERED, BUT THEIR RETURN ON AN INVESTMENT OF MORE THAN $1 BILLION IN SUGARBEET PROCESSING FACILITIES. IN THREE OF THE SEVEN SUGARBEET GROWING AREAS WHERE THE PROCESSING FACILITIES ARE NOT FARMER-OWNED, GROWERS ACTUALLY HAD A NEGATIVE RETURN ON EQUITY (FULL ECONOMIC COSTS) FOR THEIR 1988 CROP.

NOW, AS WE PREPARE TO CONTRACT FOR THE 1990 CROP, THE LOAN RATE IS STILL 18 CENTS PER POUND, RAW VALUE. BUT, IN TERMS OF ITS REAL VALUE TO PRODUCERS, IT'S ONLY 14.75 CENTS.

FACTORS SUCH AS THE CONSUMER PRICE INDEX AND THE PRODUCER PRICE INDEX FURTHER SUPPORT AND DEMONSTRATE THE NEED FOR AN INCREASE.

I NOTE THAT TOM HAMMER, REPRESENTING THE SWEETENER USERS ASSOCIATION WILL FOLLOW ME ON THIS PANEL, AND I RESPECTFULLY SUGGEST HE MIGHT BE INVITED TO DISCUSS THE RETURN ON EQUITY ENJOYED BY HIS ASSOCIATION'S MEMBER FIRMS. (IF NOT, I'D BE DELIGHTED TO PROVIDE THE DATA FOR THE RECORD.)

AS YOU WELL KNOW, MR. CHAIRMAN, THE BEET SUGAR INDUSTRY IS A VITAL LINK IN THE ECONOMIC STRUCTURE OF A GREAT MANY COMMUNITIES ACROSS RURAL AMERICA. IN FACT,IN A RECENT ANALYSIS OF THE U.S. SUGAR AND SWEETENER INDUSTRY, THE BRITISH-BASED FIRM OF LANDELL MILLS CONCLUDED THAT INCOME OF NEARLY 4.5 BILLION DOLLARS ANNUALLY IS GENERATED WITHIN THE U.S. BEET INDUSTRY.

SUGAR AND SWEETENER INDUSTRY, THE BRITISH-BASED FIRM OF LANDELL MILLS CONCLUDED THAT INCOME OF NEARLY 4.5 BILLION DOLLARS ANNUALLY IS GENERATED WITHIN THE U.S. BEET SUGAR INDUSTRY.

WHEN COMBINED WITH THE SUGARCANE AND CORN SWEETENER SECTORS, TOTAL SWEETENER REVENUES CONSTITUTE CLOSE TO 18.5 BILLION DOLLARS IN ECONOMIC ACTIVITY EVERY YEAR. THAT REPRESENTS A LOT OF WAGES EARNED .... A LOT OF TAXES PAID ... AND A LOT OF INPUTS PURCHASED FROM AROUND THE COUNTRY, WHETHER THEY ENTER THE FACTORY GATE OR THE FARM GATE.

FROM FIRSTHAND EXPERIENCE, MR CHAIRMAN, I CAN REPORT TO THIS COMMITTEE THE BEET SUGAR INDUSTRY HAS BEEN THE CRITICAL ECONOMIC DIFFERENCE FOR MANY SMALL TOWNS IN WESTERN MINNESOTA AND EASTERN NORTH DAKOTA. IF NOT FOR THE INCOME FROM SUGARBEETS, I SHUDDER TO THINK HOW MANY MORE MAIN STREET STORE FRONTS MAY HAVE BEEN BOARDED UP, HOW MANY MORE COMMUNITY BANKS MAY HAVE FAILED, HOW MANY MORE SCHOOLS MAY HAVE SHUT THEIR DOORS, OR HOW MANY MORE MILES MIGHT NOW SEPARATE RURAL FAMILIES FROM THE NEAREST DOCTOR OR HOSPITAL.

IN CLOSING, I WISH TO THANK THE COMMITTEE FOR THIS OPPORTUNITY TO TESTIFY AND, IF THERE ARE ANY QUESTIONS, I WILL DO MY BEST TO RESPOND.

THANK YOU, AGAIN.

Senator CONRAD. Thank you very much, Ron.

Next we will hear from Mr. John Couch, Chairman of the Board of the Hawaiian Sugar Planters' Association.

STATEMENT OF JOHN C. COUCH, CHAIRMAN OF THE BOARD, HAWAIIAN SUGAR PLANTERS' ASSOCIATION AND PRESIDENT, A&B-HAWAII, INC., HONOLULU, HI

Mr. COUCH. Thank you, Mr. Chairman and members of this committee. As you requested, I will briefly summarize my written testimony.

INTRODUCTION

I am testifying today on behalf of our Nation's total sugarcane processing and refining industry. That industry consists of 41 processing plants and 12 refiners in 8 States.

We currently refine over 5 millions tons of raw sugar annually. This includes all U.S. produced raw sugar, plus quota sugar imports from 38 supplying countries, in addition to some nonquota sugar imports for reexport.

DOMESTIC SUGAR PROGRAM SHOULD BE CONTINUED

The domestic sugar program is meeting its original objectives in so far as growers, processors, consumers and taxpayers are concerned, and should be continued.

CRITICS

Critics of the U.S. sugar program have complained that the program is costly to consumers and have invented estimates to support their claims. These estimates are based on misleading comparisons of U.S. sugar prices with the so-called world price for sugar.

COSTS

For reasons outlined in my text, the world price of sugar is relatively meaningless, as are these supposed cost comparisons.

A more accurate measure of U.S. consumer costs of the sugar program would be to compare refined sugar prices paid by U.S. consumers with those paid by consumers in other developed countries.

USDA has provided these figures and they are depicted on the chart on page 3 in my text. The USDA figures show the U.S. average retail price is 38 cents per pound, 4 cents below the 42-cent average of 16 major foreign cities that were surveyed. The U.S. price is also below prices in most developed countries and in all sugar importing developed countries surveyed. In this context, it would be difficult to suggest the sugar program is costing U.S. consumers anything relative to their counterparts in other developed nations.

CHART ILLUSTRATES TWO IMPORTANT POINTS

Another chart we have provided today, the one on the board at the front of the room here [see p. 311], shows U.S. sugar prices over time, shown in real (1988) dollars that correct for the effect of inflation. The chart illustrates two important points.

The first point relates to the difference in price behavior between the periods the United States has had a sugar program—those areas in blue—and the periods when we did not—those areas in yellow. During these latter periods, the lack of support for U.S. producers and the prospect that the United States would have to import more sugar to meet its needs contributed to both of the historic price peaks. One can also note the relative stability of prices during the periods when a program has been in place.

The second observation is that real U.S. sugar prices are on a downward trend.

CONCLUSION

To conclude, Mr. Chairman, it is important to continue the cost-free administration of the sugar program. It is also important to secure our foreign policy interest in the economic stability of traditional sugar exporting countries, such as the Caribbean countries and the Philippines, by continuing to afford them a sizable, stable, preferred market in the United States. We suggest that market should not be less than 1.25 million short tons.

To ensure this minimum market, we propose some form of standby marketing allocation authority. Further, we need to ensure the survival of our cane refining industry. To do so will require that any reductions in the supply of domestic raw sugar will result in increased raw sugar imports.

Finally, we need to recognize the growers and processors increasing costs, especially in the out years of a new program. We believe the proposal we are recommending will permit the GATT-consistent operation of the sugar program in a manner consistent with the protection afforded other import sensitive agricultural commodity programs.

Mr. Chairman, the current sugar program is working and working well at no cost to the taxpayer. It works well for growers and processors of sugarcane, sugar beets, and corn. It works well for consumers, having assured them of adequate supplies of high quality sweeteners at reasonable prices, prices which have been stable, yet declining in real terms. It serves useful foreign policy objectives and provides additional income for developing countries which export to our market.

For these reasons, we believe it should be continued with the refinements we have recommended. Thank you for the opportunity to testify today.

[The prepared statement and attachments of Mr. Couch follow:]

Testimony
on Behalf of
U.S. Sugar Cane Processors and Refiners

March 6, 1990

Before the
Senate Agriculture, Forestry and Nutrition Committee

Mr. Chairman and Members of this Committee, my name is John C. Couch and I am Chairman of the Hawaiian Sugar Planters' Association which represents Hawaii's sugar growers and processors. I am also President and Chief Executive Officer of A&B-Hawaii, Inc. A&B Hawaii operates three sugar processing mills and is the largest of Hawaii's sugar companies and also the largest member company of the California and Hawaii Sugar Company, our cooperative refining and marketing arm.

I am testifying here today, however, on behalf of our nation's total sugar cane processing and refining industry. That industry consists of 41 processing plants; 7 in Florida, 12 in Hawaii, 21 in Louisiana and 1 in Texas. In addition, the industry has 12 refineries which are located in the four states mentioned and in California, New York, Maryland and Georgia. Three of the refiners that I am testifying for also own the following beet sugar companies -- the Great Lakes Sugar Company, the Holly Sugar Corporation, the Michigan Sugar Company, and the Western Sugar Company. These four companies operate 19 factories in 10 states, and account for approximately 40 percent of the beet sugar produced in the United States. A list of those refineries, plus those which have been closed this past decade is attached as an appendix.

We currently refine somewhat over 5 million tons of raw sugar annually. This includes all U.S. produced raw sugar, plus quota sugar imports from 38 supplying countries, in addition to some non-quota sugar imports for reexport. The number of refineries is down sharply from 1981 when we had 22 refineries in the United States. We have also closed 4 raw sugar mills since that time. While U.S. raw sugar production has increased slightly -- some 3.2 percent since the 1985 crop and only 2.3 percent since the 1982 crop, which was the first year of the current program -- it was the reduced sucrose demand in the early years of the program coupled with some increase in beet sugar production, which resulted in the closing of 10 refineries nationwide.

The refiners' problem was exacerbated by the inadequate spread between the raw cane sugar loan rate and the refined beet loan rate. The Market Stabilization Price (MSP), which is the price objective for raw sugar, exceeds the refined beet sugar support level. With a 7 percent loss in volume during the refining process, this obviously made it very difficult for us to cover our costs and compete in the marketplace. Increased demand for sucrose and lower beet production has stabilized the refinery industry in recent years. Nonetheless, we recommend that the spread between the cane loan rate and the beet loan rate be made more equitable by directing USDA to use a 5-year, rather than a 10-year base in its calculations. Present total refining capacity of some 5.5 million tons now provides almost 60 percent of our sucrose needs, in addition to the approximately 500,000 tons which are exported annually. While the refining industry bore the brunt of the loss of sucrose market in the early years of the program, the industry has now stabilized and we have experienced 3 consecutive years of import increases and improved refinery utilization.

The domestic sugar program is now working well and needs to be continued. It has provided stable prices to consumers and an assured market for both domestic and foreign suppliers. However, we do need to consider our increasing costs in designing a program that is to carry us through the coming 5 years of the 1990 farm bill. Cost increases for our processing and refining industries appear inevitable. Since 1982, we have been able to offset cost increases in part due to improved extraction rates. We have increased the amount of sugar extracted per ton of cane by some 11 percent since 1982. Reduced energy prices also helped us cut costs and we have reduced our unit labor component, as well.

We are going to be facing higher costs in the future, however, as labor rates and energy costs increase. Moreover, the cost of replacement equipment and maintenance, costs which are beyond our control, are increasing sharply. The program is designed to support sugarbeet and sugarcane growers, but they cannot survive unless processors and refiners stay in business. Without them there would be no market for growers' sugarcane and sugarbeets. For this reason we must request an increase in future loan rates to reflect USDA cost increase estimates.

Critics of the U.S. sugar program have complained that the program is costly to consumers and have invented estimates to support this. One figure often cited is the supposed cost to consumers is $3 billion per year. The calculation is, at best, facile and out-of-date, and at worst, completely incorrect and thoroughly misleading.

An accurate measure of the cost of the program to U.S. consumers would necessitate a comparison of the U.S. market price paid by U.S. industrial users and other buyers with the price at which sugar of the same quality and characteristics would be available outside the United States. An accurate comparison is essentially impossible, however, because there is no reliable "world price" with which to compare U.S. prices.

The "world price" of sugar is a relatively meaningless one because: 1) virtually every country in the world intervenes in its sugar industry to some extent; 2) most sugar is consumed in the country where it is produced, at an assured price above the "world price;" 3) a relatively small share of world sugar production is traded; and 4) a large percentage of the trade that occurs is not at the "world price" but rather at much higher bilaterally arranged prices.

According to a recent USDA report and I quote: "Little of the sugar traded in the world market is sold at world prices . . . . Almost all is sold at prices reflecting the domestic sugar policies of the trading countries . . . . Only about a quarter of world sugar is traded in international markets, and an even smaller amount, about 15 percent, is currently traded at world prices. This is an important point, since many people believe that unlimited quantities of sugar can be bought at the 'world price." In reality, world-priced sugar is a small uncommitted amount that is sold for whatever price it might bring."

Two prime examples of the above-market-price trade arrangements are U.S. imports from its quota holders and European Community imports from the Lome group of developing countries, raw sugar which the EC then refines and dumps on the world market. But by far the greatest volume of bilaterally subsidized sugar flows form Cuba, the world's largest sugar exporter, to the Soviet Union, the largest importer, at prices recently estimated at 32 cents per pound.

This trade agreement represents a key element of Soviet economic aid for Cuba. But Jeane Kirkpatrick, in a Washington Post column last week, reports that Cuba is worried the Soviets may not honor their high-price sugar agreement this year and attempt to import Cuban sugar at the "world price" instead. She quotes Fidel Castro on his view of such an eventuality: ""What price will they (the Soviets) pay for our sugar? Perhaps they will try to pay for it at the price of the international garbage pit which is the world market.'"

Critics, nonetheless, apparently manufactured their $3-billion U.S. "consumer cost" figure by taking the difference between the "world price" at its lowest level, a 4.04-cent annual average (nearby futures, contract #11, f.o.b. Caribbean) in 1985, and the average U.S. price for that year, 20.34 cents (#14, c.i.f. New York). Multiplied by U.S. sugar use in 1985 of just over 8 million short tons, this "cost" would amount to $2.7 billion. This figure is still cited, but is incorrect for a host of reasons.

Most obviously, there is no reliable world price with which to make a comparison. If one were to insist on using the #11 futures price for some kind of comparison, the following points would have to be taken into account:

1. The #11 price has nearly quadrupled since the $3-billion figure was calculated in 1985. It is currently just under 15 cents. (The #14 price has also risen, by less than 10 percent, to just under 23 cents.)

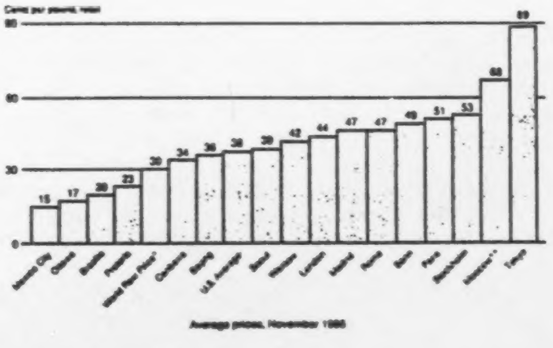
2. To make the two price series even minimally comparable, one must add 1.5 cents in transportation costs to the #11 price, which is f.o.b. the Caribbean, to equate with the #14, which is landed New York. The adjusted difference of 6.5 cents per pound (23 minus 16.5), multiplied by USDA forecast sugar use in 1990 of 8.35 million tons, would yield a "consumer cost" of $1.085 billion, about a third of the critics' oft-cited figure.

3. If U.S. users and consumers were buying their sugar from the thinly traded world market, the price would certainly be substantially higher. In a market where only 16-18 million metric tons of sugar are traded at the so-called world price, the replacement of more than 6 million tons of U.S. production with imports would put drastic upward pressure on world prices.

If one hopes to measure accurately the cost of sugar producer protection to consumers, one would realistically have to assume a worldwide zero-subsidy, free-trade environment in which sugar would be available at the world average cost of production and compare that cost to current consumer prices in each country. With sugar markets protected to some degree in over 100 countries, this is the only viable way to measure such costs -- one cannot assume elimination singly of the U.S. program and estimate U.S. consumer costs relative to this heavily subsidized and distorted remaining world market.

Perhaps a more equitable measure of U.S. consumer costs of the sugar program would be to compare refined sugar prices paid by U.S. consumers with those paid by consumers in other developed countries. USDA has provided this, as depicted in the chart below.

Consumer Prices for Sugar Reflect Domestic Policies Rather Than
World Market Prices



Average prices, November 1990

*Includes U.S. marketing cost. **Official exchange rate.
Source: USDA, World Agricultural Outlook Board, November 1990.

The U.S. average retail price of 38 cents per pound, as shown, is below the 42-cent average of the 16 foreign cities that were surveyed. In addition, the U.S. retail sugar price is below those in all other net sugar-importing countries shown, as well as cities in the EC, a net exporter of sugar.

In this context, it would be difficult to suggest the sugar program is costing U.S. consumers anything, relative to their counterparts in other sugar-importing developed nations.

The attached chart provides U.S. sugar prices over time, shown in real (1988) dollars that correct for the effect of inflation. The chart illustrates two important points.

First is the difference in price behavior between the periods the U.S. has had a sugar program (blue areas) and the periods when we did not (yellow). The lack of support for U.S. producers and the prospect that the U.S. would have to import more heavily to meet its needs contributed to both of sugar's historic price peaks. One can also note the relative stability of prices during the periods when a program has been in place.

Second is the observation that real U.S. sugar prices are on a downward trend. It is a credit to the U.S sugar industry that it has been able to remain viable despite a steady decline in the real price for its product. It has been able to do so because the government has provided the industry with a basic support level that, in turn, has encouraged investment in the research and development that have increased efficiency and kept the industry competitive.

The U.S. sweetener industry's competitiveness is demonstrated by figures published by USDA that showed, for the period 1979/80 - 86/87, the U.S. beet sugar industry was seventh of 31 sugarbeet producing countries and that cane sugar ranked 33rd among more than 60 cane producing countries. The study also found that the U.S. corn sweetener industry is the lowest cost in the world. The sharp decline in the dollar since the mid 1980's would suggest, furthermore, that U.S. producers are relatively more competitive currently.

Sugar is one of the few major food crops in which we are not self-sufficient as a nation. We have throughout our history been a net importer of sugar. In part this reflects quota controls on domestic producers from 1934 to 1974. Since then, our dependence on imports have been reduced due to the takeover of the large liquid sweetener soft drink market by HFCS.

It is important to continue the cost-free administration of the sugar program. It is also important to secure our foreign policy interest in the economic stability of traditional sugar exporting countries of the Caribbean and the Philippines by continuing to afford them a sizeable, stable, preferred market in the United States. We suggest that market should be not less than 1,250,000 short tons.

Further, we need to assure the survival of our cane refining industry. To do so will require that any reductions in the supply of domestic source raw sugar will result in increased raw sugar imports. Failure to do so would further contract our refining industry and would leave us increasingly vulnerable to supplying future sucrose needs by imports of heavily subsidized EC refined sugar.

Last year, a GATT panel ruled that the present quotas administered under Headnote 2 authority, which the Administration had selected to protect the sugar program from subsidized imports, was not consistent with GATT rules. The Congress should address this problem as the Administraiton has repeatedly expressed its opposition to the current sugar program and may, therefore, not address it in an objective manner. We believe the proposal we are recommending will permit the GATT consistent opperation of the sugar program in a manner consistent with the protection afforded other import sensitive agriculture commodity programs.

Any major reduction in the support level would drive many U.S. sugar growers out of sugar. Sugar beet production is likely to decline most rapidly, because it is an annual crop with generally available alternatives. Beet growers are most likely to switch to other crops, which would seriously oversupply the market, drive down prices, and reduce incomes for the current producers of such crops. In addition, the United States would have to import more sugar.

Where will such imports come from? We now import sugar from 39 countries. These imports, except those from Canada, are normally in the form of raw sugar. However, the present refining capacity would not be adequate to absorb a major reduction in the availability of beet sugar. The refining capacity can be increased with time and major capital expenditure but, in the interim, there would be sugar shortages in many areas of the U.S. This would likely result in the U.S. having to import refined as well as raw sugar.

The sole source of substantial quantities of refined sugar on the world market is the European Community. The EC's exports of refined sugar averaged more than 5.5 million tons over the past three years. These exports are heavily subsidized and essentially dumped on the world market. Among the U.S. import quota holders, Brazil is by far the largest refined sugar exporter, but its exports are just a fraction of the EC's -- only around 500,000 tons -- and Brazil has been having trouble of late in fulfilling even its current U.S. quota allocation.

The most substantial beneficiaries of a sharp increase in U.S. sugar import needs would, therefore, be the subsidized European sugar producers and the EC government, a government which currently assures its producers, and its Lome Convention suppliers of raw sugar, a price of some 30¢ per pound -- a price well above the U.S. support rate.

With adoption of a lower support level, as proposed, U.S. sugar buyers may have access to lower price dumped sugar for a period of time, but the added demand would certainly drive prices above their current level of around 15¢ per pound (i.e., 16.5¢ landed New York). Furthermore, we can be certain that once foreign producers have gained a greater market share, their willingness to subsidize U.S. industrial sugar buyers and other buyers by selling sugar below cost would soon cease. Our consumers would, therefore, soon face higher prices for sugar than they now pay, along with greater exposure to the world's most volatile commodity market, a market which saw monthly average prices during the 1980's range from 2.7¢ to 41.1¢ per pound.

Meanwhile, we will have lost much of an important U.S. agricultural industry. In addition, our present foreign suppliers would have lost considerable income or quota rents as a result of the temporary reduction in the price received for sales to the U.S. market.

Some foreign suppliers are already finding the return from sales to our market inadequate. Taiwan, for example, recently announced it will reduce sugar exports to the U.S. this year due to large losses from previous sales. A Taiwanese official was quoted by Reuters as saying: "Last year, we lost about US$5 million from the exports. We bought sugar from our farmers at a guaranteed price of about US$750 per tonne (34¢/lb.) and sold it at around US$435 (20¢/lb.) to the U.S."

Countries such as Bolivia, Uruguay, Ecuador, Peru, Costa Rica, El Salvador, Honduras, Panama, and the Philippines, whose U.S. import-quota allocations constitute a large share of their total sugar exports, would gain scant benefit from any increase in the world market price which may result from our expanded dependence on world market supplies, which would occur if domestic production declines. Those quota rents are sizeable and the increased earnings of the countries named, assuming 1989 average world prices for the current 21-month quota period and a domestic price equal to the MSP, will be more than $100 million. For the Philippines alone, quota rents will be more than $55 million at the present quota level and for all exporters to the U.S. market, they will exceed $225 million.

Some critics have gone so far as to suggest that reductions in U.S. quota sugar imports, which peaked at 3.09 million short tons in calendar 1984 and are estimated by USDA at 2.03 million this year, have contributed to the spread of cocaine production in Peru, Bolivia, and Colombia. The allegation that sugarcane growers are switching to coca is absurd, for a number of reasons:

1. Coca is a highland crop, typically grown on small family plots. Sugarcane is a lowland crop, typically grown on large plantations.

2. According to USDA estimates, harvested sugarcane area for these three countries has actually expanded. This year's estimated combined area of 219,000 hectares is up 5 percent from 1982/83 when U.S. import quotas were first in force, and is up 11 percent from a decade ago.

3. Though their sugar quotas have recently increased, Peru and Bolivia failed even to fulfill their allocations in recent years. Peru, in fact, is a net importer of sugar. And sugar output in Colombia, the largest producer of the three by far, is estimated this year to be about 15 percent above its production levels of the early 1980's. Colombia, by the way, is not a major coca grower but a cocaine processing country.

4. With sugarcane harvested area in Latin America estimated at 2.85 million hectares and total coca area estimated at 42,000 hectares, the scale of the two industries is so different as to make any comparison belabored, to say the least.

In conclusion, the U.S. sugar program is under attack for three reasons:

First, it is under attack because access to dumped sugar on the world market would increase the profits of the already very profitable large industrial users of sweeteners who are the buyers of nearly all corn sweeteners and a large majority of sugar. They have long conducted a heavily financed expert public relations campaign in their effort to get such access.

Secondly, it is under attack by foreign producers seeking to make the U.S. more dependent on sugar imports and to counter the threat posed by the expanding corn sweetener industry.

Third, it is under attack because it is a complicated market and program that is not easily understood. Opposition arguments make great 30-second sound bites. Defense of the program requires a greater depth of understanding.

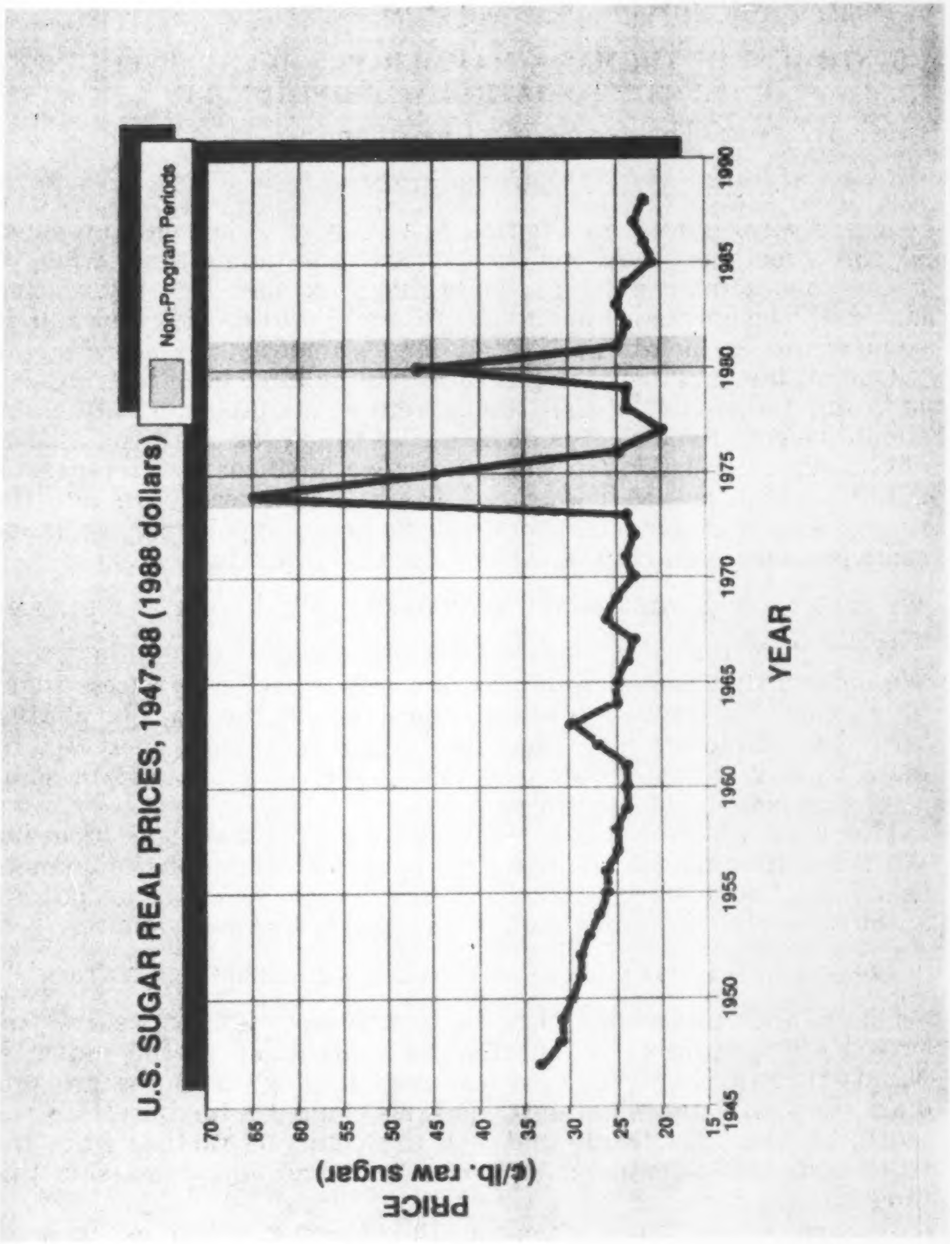
Mr. Chairman, the current sweetener program, and it is a sweetener program, for it also protects the large very efficient corn sweetener industry from the severe losses which would result from its having to compete with dumped sugar, is working and working well.

It works well for growers and processors of sugarcane, sugarbeets and corn. It works very well for consumers having assured them of adequate supplies at reasonable prices, prices which have been declining in real terms. It serves useful foreign policy objectives and provides additional income for developing country exporters to our market. It must be continued.

CANE SUGAR REFINING INDUSTRY
1981-88

REFINERY LOCATION	COMPANY	CAPACITY[1]	
Aiea, Hawaii	C&H Sugar Co.	200	
Baltimore, Maryland	Amstar	2,900	
[Belle Glade, Florida	Florida Sugar	390	CLOSED 3/86]
[Boston, Massachusetts	Amstar	1,000	CLOSED 3/88]
[Boston, Massachusetts	Revere	1,200	CLOSED 5/84]
Brooklyn, New York	Amstar	2,100	
[Brooklyn, New York	Revere	1,120	CLOSED 3/85]
Chalmette, Louisiana	Amstar	2,800	
[Chicago, Illinois	Revere	850	CLOSED 5/84]
Clewiston, Florida	Everglades	400	
Crockett, Claifornia	C&H Sugar Co.	3,500	
Gramercy, Louisiana	Colonial	1,500	
[Mathews, Louisiana	Louisiana Sugar Cane	600	CLOSED 9/85]
[Philadelphia, Pennsylvania	Amstar	2,100	CLOSED 10/82]
[Philadelphia, Pennsylvania	National	2,100	CLOSED 9/81]
Port Wentworth, Georgia	Savannah	2,000	
[Reserve, Louisiana	Godchaux-Henderson	1,900	CLOSED 1/85]
[St. Louis, Missouri	Industrial	300	CLOSED 3/87]
South Bay, FLorida	Okeelanta	500	
Sugar Land, Texas	Imperial	1,650	
Supreme, Louisiana	Supreme	700	
Yonkers, New York	Refined Sugars	1,800	

[1] 24-hour melting capacity, short tons, raw value, as reported by USDA



U.S. SUGAR REAL PRICES, 1947-88 (1988 dollars)

Senator **Conrad**. Thank you very much.

Next we will turn to Mr. Hammer. Welcome.

STATEMENT OF THOMAS A. HAMMER, PRESIDENT, SWEETENER USERS ASSOCIATION, WASHINGTON, DC

Mr. **Hammer**. Thank you, Mr. Chairman.

INTRODUCTION

It is always indeed an exciting opportunity to present the views of the sweetener users to the Agriculture Committees when it comes to sweetener policy. I would like to request that my written statement be entered into the record, and I will quickly summarize some of the key points that are in our testimony.

One of the most disturbing things that we have been hearing this morning and earlier is that the current sugar program is fine and should be continued as it is; it meets all the needs of all the aspects of the sugar industry. On this matter we have some differences of opinion which are well known. I think that as we move into the next weeks and months, there will be some opportunity to make some judgments on how well the program is working.

WE BELIEVE THAT THE SUGAR PROGRAM COULD USE SOME ADJUSTMENT

We believe that the sugar program could use some adjustment. We believe that the current program has led to some excess sugar production. We have seen some situations which cannot be characterized as stable prices. Wholesale refined prices have increased by more than 25 percent over the last couple of years and in some cases they are up 30 percent or more.

This is not the only thing that is wrong with the sugar program. We think that it just has not kept pace with some of the changes that have happened in that sweetener industry. I will not go into all of those changes, but they are enumerated in my testimony.

DISTURBING PORTRAYAL OF THE SWEETENER USERS ASSOCIATION

One of the things that disturbs us the most is that we are portrayed as wanting to be out for the destruction of the industry. Ninety-three percent of the sweeteners that we consume are produced domestically. Therefore nothing could be further from the truth, but we also think that nothing could be further from the truth that there could not afford to be some adjustments to this program.

We are committed to changing the program. We hope to work with the committee in that regard, and I would like to make in my final summary points, some of the things that have come up between the farm bill versus the GATT.

FARM BILL VERSUS GATT

There continues to be a great deal of discussion as to whether or not the sugar program should be reformed in the farm bill or the multilateral trade negotiations. I remember in earlier hearings in this committee and the House Agriculture Committee that we were clearly opposed to writing a policy in Geneva, and that we thought it was much better to make our changes in terms of the domestic farm bill process. And we believe that to be true.

We are not out after the dismantling or the elimination of the sugar program. We do believe that there can be some changes made in this farm bill process. It should be remembered too that the GATT ruling against the sugar quota resulted from the Australian complaint is separate from the multilateral negotiations. The multilateral negotiations are designed to eventually eliminate all agricultural subsidies or at least to rewrite the agricultural rules, not to negotiate settlement terms of individual cases already ruled upon.

When the GATT ruled against the U.S. sugar import quotas, the understanding was that the United States would take the appropriate action to remedy the problems. Conversely, the United States expects—no I think we probably demand in the case of oilseeds and other cases that are before the GATT, that the same corrective action from other countries when they are found to be in violation of international rules be taken. We believe that by not following the GATT's own rulings with regard to the sugar program, the United States is actually contrary to earlier statements, weakening its position in support of stronger enforcement of GATT rules.

CONCLUSION

Finally by making modest reforms now—lowering the price support and creating a new mechanism for handling and increasing imports—we believe it is not unilateral disarmament. We believe it is wholly appropriate for reforms to be made now to reflect the changing domestic sweetener market, to provide relief to consumers, our trading partners, and indeed to industrial manufacturers.

We do not seek the elimination of the existing sugar program in an unilateral context, and we do hope that we are afforded the opportunity to work with this committee. Thank you, Mr. Chairman.

[The prepared statement of Mr. Hammer follows:]

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
UNITED STATES SENATE

STATEMENT OF THE SWEETENER USERS ASSOCIATION ON U.S. SUGAR PROGRAM ISSUES RELATED TO THE PRICE AND INCOME SUPPORT TITLE OF THE 1990 FARM BILL

Thomas A. Hammer, President
Sweetener Users Association
2100 Pennsylvania Avenue, N.W.
Suite 695
Washington, D.C. 20037
(202) 872-8676

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Hearing Date: March 6, 1990

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES
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STATEMENT OF THE SWEETENER USERS ASSOCIATION ON U.S. SUGAR PROGRAM ISSUES RELATED TO THE PRICE AND INCOME SUPPORT TITLE OF THE 1990 FARM BILL

I am Thomas A. Hammer, President of the Sweetener Users Association. The Sweetener Users Association is pleased to have the opportunity to present its views on the issues relating to the policy issues and options for the U.S. sugar program as it affects producers, processors, users, and the international community.

The Sweetener Users Association represents industrial users of nutritive sweeteners and the trade associations representing such companies. The Association supports legislative or administrative actions that would result in a more market-oriented sweetener price and an adequate and reliable supply of domestic and foreign sweeteners.

We applaud Chairman Kent Conrad for holding this hearing in order that affected parties have the opportunity to examine, in a comprehensive manner, the operation of the domestic sugar program to determine whether the program is in the overall best interests of the United States, and to consider how the U.S. sugar program should be reformed in light of U.S. trade policy objectives and international obligations.

The Sweetener Users Association strongly supports legislative modifications to the current sugar program. There are a number of legislative approaches that could be acceptable to the industrial manufacturers of sweetened products and beverages; however, any such change should contain three fundamental elements: (1) a lowering of domestic sweetener prices; (2) an increase in the quantity of imported raw sugar available to the U.S. market; and (3) the satisfaction of our international obligations under the General Agreement on Tariffs and Trade (GATT).

THE CURRENT U.S. SUGAR PROGRAM

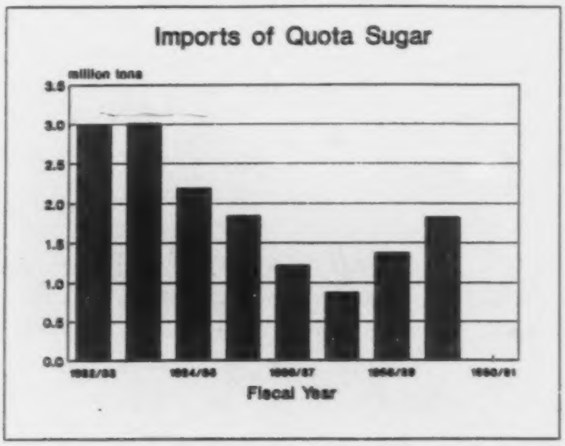
The 1985 Food Security Act mandates that the Secretary of Agriculture shall support the price of raw cane sugar at no less than 18¢ per pound. The Act further requires the "President to use all available authorities to enable the Secretary of Agriculture to operate the sugar program at no cost to the Government." In Conference Report language, the Conferees explained that by "no cost," it is meant that the import quota on raw and refined sugar be adjusted to such a level that there are no forfeitures of domestic sugar to the Commodity Credit Corporation (CCC) and, thus, "no cost" to the government.

To minimize the possibility of the acquisition of sugar by the CCC, the Secretary maintains a market stabilization price (MSP) well above the statutory loan rate for raw sugar. The MSP for the 1989/90 season is 21.95¢ per pound. Thus, the MSP establishes the effective minimum price for raw sugar in the United States. The domestic raw sugar price is over 23¢ per pound versus an approximately 15¢ per pound world price. This currently translates into a domestic wholesale refined sugar price of 30-32¢ per pound -- approximately 35 percent above where it was just two years ago. Price stability has not been a hallmark of the current program.

SUGAR IMPORT QUOTAS

In order to achieve the MSP, or market price objective, the Secretary of Agriculture has maintained a highly restrictive import quota. Since sugar quotas were initiated in 1982, imports of raw sugar have been reduced drastically (see Chart 1 below). At the beginning of calendar year 1988, U.S. sugar imports were set at 750,000 short tons. The 1988/89 drought and the 1989 freeze pushed the level of quota imports back to 1.8 million tons for this fiscal year. However, many analysts expect the import quota to fall back to 1 million tons or less in the next year or two, and possibly to zero over the life of another five-year Farm Bill.

Chart 1



If the import quota is reduced to zero -- or near zero -- budget outlays will begin to occur, either for loan forfeitures or for export subsidies to unload surplus sugar production. Once the sugar program begins to cost federal taxpayers money, the question of its sustainability becomes a real issue.

GATT COUNCIL RULES AGAINST U.S. SUGAR QUOTAS

A recent GATT decision has also called into question the sustainability of the existing sugar program.

In September 1988, the Australian government challenged the United States over the use of the "tariff headnote" authority for imposition of sugar import quotas. A three-member panel chosen by the GATT Secretariat heard the arguments of both parties and in May 1989 determined that U.S. quotas violate GATT Article XI. On June 22, 1989, the 96-member GATT Council voted unanimously that U.S. sugar quotas are in violation of the General Agreement on Tariffs and Trade.

Although the timing of the subsequent steps to be taken by the United States is inexact, eventually changes must be made to the sugar program in order to comply with GATT rules. The result of refusing to modify the U.S. sugar program could lead to costly compensation to Australia and other sugar exporters. Indeed, should these countries refuse compensation, this matter could eventually lead to retaliation against U.S. farm and nonfarm products.

IMPACT OF CURRENT U.S. SUGAR POLICY

In order to understand what types of reforms should be enacted, it is important to briefly review the effects of the price support and quota mechanisms of the U.S. sugar program.

On the face of it, the 1985 sugar program has done its job. It has supported domestic prices some 4¢ or more above the statutory minimum of 18¢ per pound and appears to have done so at no direct cost to the federal government. But, in spite of repeated assurances by members of the Agriculture Committee in 1981, and again in 1985, that 18¢ was merely a minimum "safety net" that sugar growers needed to survive, this price support became a powerful incentive to overproduce.

Over the past eight years, the production of cane and beet sugar has increased from 6.2 million tons in 1981 to 7.1 million tons in calender year 1988 -- an increase of over 15 percent. The increase in production has not been dictated by market signals, but rather has taken place due to one basic factor. Government has made the growing of sugar extremely profitable. It is profitable because the government guarantees it. In fact, since the 1981 Act was implemented there has been a major contraction in the use of sugar in the United States. Table 1 shows the changes in consumption of various sweeteners for calendar year 1981 compared to calendar year 1988.

Table 1
U.S. Sweetener Use

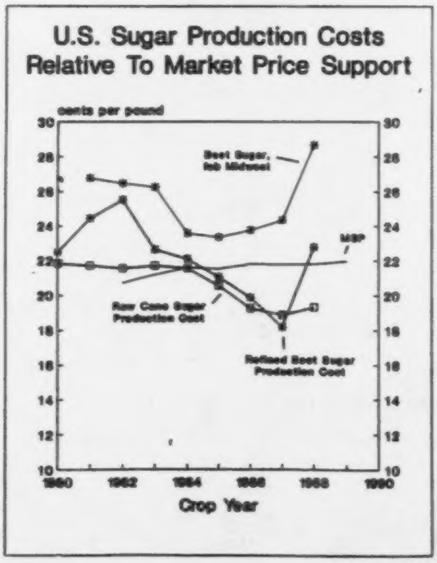
	1981		1988	
	(mst)	(%)	(mst)	(%)
Domestic Beet	3.2	20	3.6	18
Domestic Cane	2.6	17	3.5	18
Imported Cane	4.0	25	1.1	6
Total Sugar	9.8	62	8.2	42
Corn Sweeteners	5.1	32	8.6	44
Honey and Syrups	0.1	1	0.2	1
Low Calorie	0.9	5	2.5	13
Total	15.8	100	19.5	100

A quick look at this table tells several things: (1) total sweetener usage is up, but consumption of imported sugar has dropped from 25 percent of total usage to 6 percent; (2) overall sugar usage has been declining while domestic production has expanded; and (3) corn sweeteners and, to a limited extent low calorie sweeteners, have displaced traditional sugar usage.

In view of the fact that we are supporting the domestic sugar industry at a level that exceeds full production costs, including returns to land and capital, it is no wonder that the domestic industry is expanding output. Moreover, the current sugar program has been designed and operated so as to guarantee that even the least efficient producers can cover their costs.

Most of the industry could compete under a lower support level. It is to the industry's credit that it has become more efficient and reduced its cost. But, there is no way for the existing legislation to adjust to this change. The current MSP of 21.95¢ per pound and the resulting refined sugar price of approximately 30¢ per pound covers full costs for both cane and beet sugar, as Chart 2 demonstrates.

Chart 2



SUGAR VERSUS ALTERNATIVE CROPS

The expansion of the nation's sugar crop at a time when domestic usage has been declining can be better explained when viewed in the context of alternative crop returns.

To begin with, sugar growers receive program benefits (price protection) without incurring any of the program obligations that producers of feed grains, wheat, rice and cotton must accept in order to be eligible for federal price and income protection.

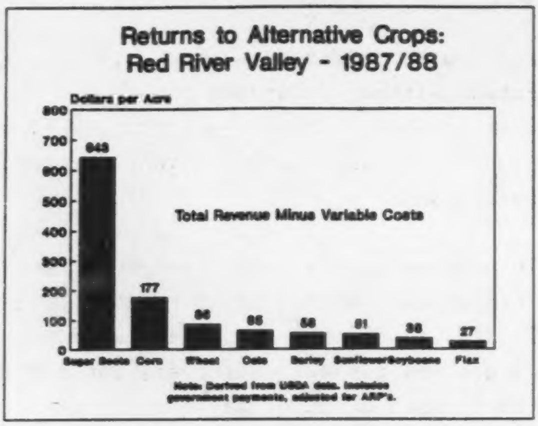
While producers of alternative crops have been faced with acreage reductions (ARP's) of 10 to 35 percent over the past several years, sugar production has expanded by 17 percent since the 1985 Act was passed. Moreover, sugar producers do not have to comply with producer payment limitations since their price protection is supported by a consumer tax versus taxpayer dollars.

But more indicative than the fact that the sugar program provides most growers with a price guarantee of 5-25 percent above the full cost of production and double their cash cost is the relation to returns paid to alternative crop producers.

For example, 1987 crop sugar beets grown in the Red River Valley yielded $643 per acre total revenue after accounting for variable costs. By comparison, corn provided about $177 per acre. Even with the 1988 drought, revenue minus variable costs reached $344 per acre for beets in that region. In Louisiana, sugarcane provided $492 per acre versus $287 for cotton, $151 for rice, and $66 for soybeans. Returns to land provide similar contrasts (see Charts 3-6).

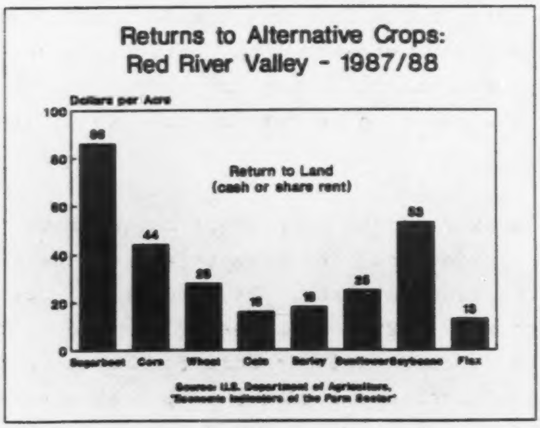
A similar analysis of other sugarcane and sugar beet producing areas would show similar results.

Chart 3


Returns to Alternative Crops: Red River Valley - 1987/88

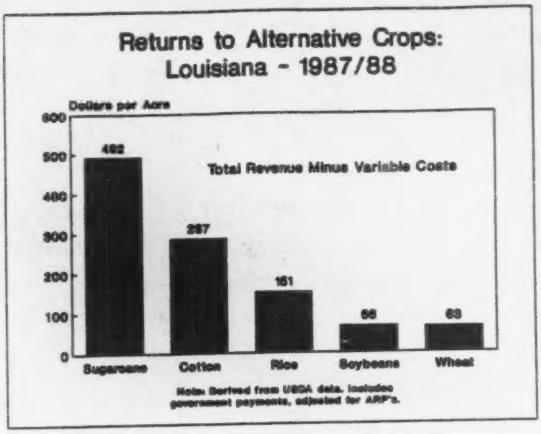
Note: Derived from USDA data. Includes government payments, adjusted for ARP's.

Chart 4


Returns to Alternative Crops: Red River Valley - 1987/88

Source: U.S. Department of Agriculture, "Economic Indicators of the Farm Sector"

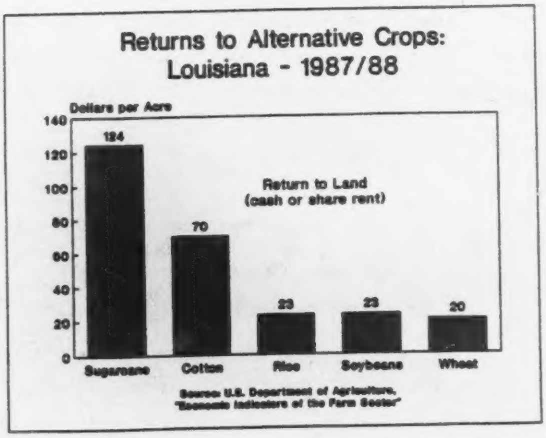
Chart 5



Returns to Alternative Crops: Louisiana - 1987/88

Note: Derived from USDA data. Includes government payments, adjusted for ARP's.

Chart 6



Returns to Alternative Crops: Louisiana - 1987/88

Source: U.S. Department of Agriculture, "Economic Indicators of the Farm Sector"

OPTIONS FOR REFORM

What types of reform to the U.S. sugar program should be enacted in light of U.S. trade policy objectives and international obligations?

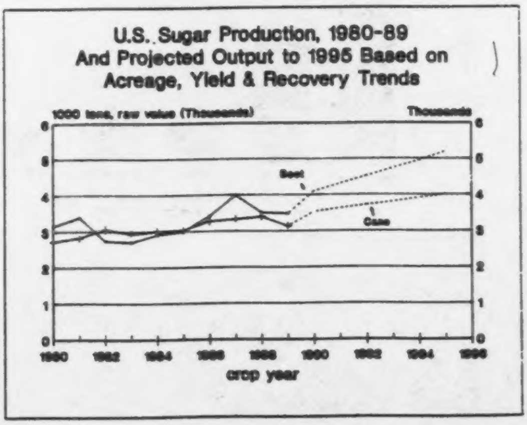
Options:

A. No change:

The 1985 sugar program, and its predecessor program, provided powerful incentives for domestic producers to expand output. This expansion, coupled with decreased domestic demand for sugar, is the main factor that led to the reductions in the sugar import quota during the 1980's.

The current level of market price support for raw sugar has been attractive both in absolute terms and relative to other crops. If sugar price supports are held constant while other crops are cut back as a result of budget pressures in the 1990 Farm Bill, U.S. sugar production could exceed 9 million short tons, raw value, by 1995. This would make the United States 100 percent self-sufficient and possibly a net subsidized exporter of raw sugar. See Chart 7.

Chart 7



Also, keeping the current sugar program intact would preserve the illegal quota mechanism. In light of U.S. trade policy objectives and international obligations, this option is wholly unacceptable.

B. Producers Alternative:

An alternative to the existing sugar program has been floated by various domestic sugar producer representatives.

In short, this proposal would maintain the current excessive loan rate and set a relatively low minimum sugar import quota. To avoid the accumulation of domestic surpluses by the Commodity Credit Corporation, marketing controls on domestic sugar would be automatically implemented by the U.S. Department of Agriculture when U.S. domestic sugar production plus the minimum import quota exceeded domestic demand for sugar. The surplus domestic sugar produced in excess of annual domestic consumption would then be dumped onto the world market with the aid of a subsidy paid for by an assessment on domestic sugar producers.

If this sounds complicated, just understand that it is modeled after the current European Community sugar regime. This proposal is definitely not an improvement. It contradicts U.S. trade policy objectives and international obligations and would almost assuredly bring another successful GATT challenge against the U.S. sugar program.

C. Sugar Supply Stabilization Act:

The Sugar Supply Stabilization Act is more consistent with the market-oriented farm programs. It would move the U.S.

government from a position of guaranteeing profitability of inefficient producers to one of providing a "safety net" for efficient ones. It would permit market forces and consumer preferences to determine the sweetener mix in the U.S. food system rather than being dictated by government. And it is compatible with having a healthy sugar industry over the long term.

This objective would be achieved by gradually reducing the loan rate by 1-1/2¢ per pound each year over a four-year period. In the case of refined beet sugar, average f.o.b. prices would fall to about 20¢ from levels that have recently ranged from 24-30¢ per pound. This would still cover all variable and fixed costs, except in drought years like 1988, so the bulk of the beet industry would still remain in business. In the case of cane sugar, prices at the mill would decline from 20.5¢ to 14.5¢ (allowing 1-1/2¢ per pound for transportation). Based on USDA data, this would cover average variable costs but not fixed costs.

As inefficient producers drop out, average cost of production figures will decline. There are many growers and processors who will continue to be profitable, even at significantly lower prices.

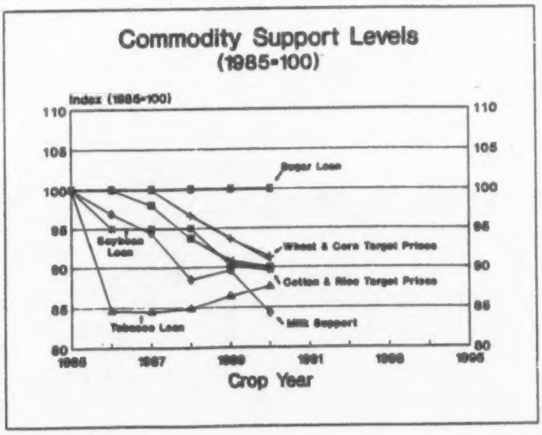
One unintended problem with the Sugar Supply Stabilization Act is that it maintains the very tariff headquote quotas that have been deemed to be inconsistent with U.S. obligations under the GATT. However, because it lowers the excessive support price for sugar and increases the sugar import quota, it is probable that the Sugar Supply Stabilization Act could serve as a transitional measure to resolve the GATT complaint.

D. Sugar Equity & Reform Act of 1990:

We strongly support this legislative proposal because it meets all three of our major criteria: (1) a lowering of domestic sweetener prices; (2) an increase in the quantity of imported raw sugar available to the U.S. market; and (3) the satisfaction of our international obligations under the General Agreement on Tariffs and Trade (GATT).

The Sugar Equity & Reform Act would accomplish the same objectives as the Sugar Supply Stabilization Act -- reduce the support price and increase the import quota. And it would be GATT legal. The legislation would lower sugar price supports by 5 percent per year to approximately 14¢ per pound. This reduction would bring much needed equity to the sugar program, since other crops have been cut by 10-15 percent over the life of the 1985 Farm Bill. See Chart 8. By 1995/96, the MSP would be about 18¢ per pound -- the same as the current loan rate.

Chart 8



The Sugar Equity & Reform Act also establishes an initial minimum quota of 1 million metric tons, which rises by 250,000 tons per year to a 2-million ton minimum by the fifth year. This provision would once again give foreign suppliers a significant share of the U.S. sugar market. The final minimum import level of 2 million tons is approximately equal to the minimum import quota that could be imposed under Section 22, i.e., 50 percent of the average 4 million metric ton import level in the 1975-81 period when quotas were not in effect.

The Sugar Equity & Reform Act attains GATT legality through use of tariff rate quotas.

The Sugar Equity & Reform Act retains the current quota allocation and duty preferences on quota sugar for the Generalized System of Preferences (GSP) and Caribbean Basin Initiative (CBI) beneficiary nations.

This legislative proposal would bring equity and reform to U.S. sugar policy. It would treat sugar farmers equitably, resolve our GATT dispute over the illegal import quotas, restore competitiveness of industrial users by lowering costs to domestic consumers, and set an example for our trading partners as we begin the final stage of the Uruguay Round of Trade Negotiations.

THE GATT CASE, THE FARM BILL, AND THE URUGUAY ROUND

The Sweetener Users Association supports the long-term goal to remove all impediments to trade in agriculture. The elimination of all tariff and non-tariff measures affecting the sweetener trade is essential. However, immediate changes must be made to the U.S. sugar program in order to comply with the recent GATT ruling. Such changes must be made in the context of the 1990 Farm Bill.

The process of reforming our nation's sugar program must be started immediately, since the U.S. sugar policy is a poor example to set while the United States is attempting to negotiate a more liberal trading system for both agriculture and industry.

The Sweetener Users Association strongly urges the Congress and the Administration to immediately adopt and pass into law the Sugar Equity & Reform Act as part of the 1990 Farm Bill. This would restore equity to our sugar program and meet U.S. trade policy objectives and international obligations.

We thank you for your attention to this vital issue.

Senator **Conrad**. Thank you, Mr. Hammer. Mr. Hammer, I noticed in your testimony that you indicated sugar beets grown in the Red River Valley yielded $643 per acre total revenue after accounting for variable costs. I would ask you, do the companies that you represent operate on a variable cost basis? Do they seek a return in their price sufficient only to cover their variable cost?

Mr. **Hammer**. No, but we also put a chart in there that deals with return to land. I think it is a reasonable calculation for comparing one commodity to another.

Senator **Conrad**. Frankly, I think the facts would dispute that quite clearly. If we look at total economic cost per acre according to USDA, we find quite a dramatic difference. Total costs for wheat, for example are $126; sugar beets, $735; sugarcane, $849. The fact is, if you look at total economic costs, which is what I assume your company must look at in setting their price, instead of a $378 figure which is the variable cost, according to USDA, the cost per acre is $734. I just think for the record that the companies that you represent would expect to be dealing with total economic cost when they go to the marketplace. I do not know why sugar beet growers would be just looking at only variable costs.

Mr. **Hammer**. Part of the point in the testimony that we made there was how that is derived. I think the industry should be applauded for reducing that cost. We believe that they have done so in a very efficient manner over the life of this bill. The question that remains is is it appropriate that the support price be set at such a level? And that is where I think we have our difference, Mr. Chairman.

Senator **Conrad**. All right, let me ask you this. You indicated again in your testimony that price stability has not been a hallmark of the current program. Are you disputing what this chart shows, for example?

Mr. **Hammer**. I do not dispute that chart. I also think that it is important to note the prices that our companies are faced with is wholesale refined sugar prices. Those prices 2 years ago were selling to us in the range of the 24 to 26 range. They are now above 30 cents. I think by anybody's standards those are high increases in prices. In many cases, we have not passed those prices on. We do operate in an environment where people are sensitive to prices. We are operating where the price of wholesale refined sugar to us today is fully 6 cents above what it was just 2 years ago. We are not talking about anything in the legislation which was mentioned earlier here that would drop the price by as much as 6 cents per pound.

Senator **Conrad**. I would just say to you with all respect, I bought a candy bar the other day for 45 cents. I bought that same candy bar a number of years ago for 25 cents. Talk about price escalation! If we would compare what has happened to the price that we consumers pay on the products with sweetener in them to what has happened to sweetener prices, it is obvious that somebody other than the sugar producers are clearly getting the lion's share.

If we are to look industry to industry, maybe we could put that chart back up that we had earlier. We look at what has happened to the prices of sugar-containing products from 1980 to 1987—again I might ask you would you dispute what this chart shows? While the cost of sugar has gone down, the cost of sugar-containing products has gone up.

Mr. **Hammer**. I am not sure the assumptions that goes into that chart. I am not going to dispute it. There are many factors that go into prices. CPI is one of the major issues that influences it. At the retail level we have no control over the price. Once it leaves the wholesale price, we have no control over that price. And I think people that are in the business understand that.

I cannot dispute that, Mr. Chairman, but I do suggest that in cases like soft drinks, for example, the information that we have at hand is that on a per ounce basis, soft drinks are selling cheaper to the consumer today than they were 10 years ago. There is competition in the marketplace. There is a belief that if we can keep our prices low or lowest possible prices to the consumer; that we can continue to build markets; that we can continue to keep our customers; and we are conscious of those facts.

Senator **Conrad**. Let me just say, for the record, this chart[8] that I referred to shows that retail sugar prices from 1980 to 1987 are down 17 percent; cereals are up 63 percent; cookies and cakes are up 45 percent; candy is up 37 percent. Some where there is a disconnect here.

Let me ask you one other question regarding a statement in your testimony: "The Government has made growing of sugar extremely profitable. It is profitable because the Government guarantees it." I wonder if you would want to accompany me to a meeting of sugar beet producers in my State and tell them that the Government program guarantees that they make a profit?

Mr. **Hammer**. I have been in some of those meetings. We have differences of opinion.

Senator **Conrad**. Would you like to come back?

Mr. **Hammer**. I am not sure that they would like to have me come back, but I will be happy to go with you, if I can have some sort of congressional immunity.

Senator **Conrad**. I think it may take more than immunity. We probably would have to have the 82d Airborne.

Mr. Hayes, we have heard that the industry is tremendously profitable and you are all getting rich. Why are these sugar beet plants closing, if things are so good out there? Can you explain that to me?

Mr. **Hayes**. Well, when you step back and look at the number of factories that have closed, and seven have closed just here in the last 9 years since the 1981 sugar program was implemented. I think it gets back to economics and return on the investment when you step back and really look at it. If you look at all the cane refiners that are closed and all the sugar beet factories, it is strictly return on investment. It has not been there for whatever reason.

Senator **Conrad**. It has not been there. In other words, you are saying the profits have not been there?

Mr. **Hayes**. Right.

Senator **Conrad**. And that is the reason that seven sugar beet mills have closed in this country in the last—what period of time?

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[8] See p. 226 for the chart, "Why Sugar is a Good Deal, Price Changes, 1980–87."

Mr. **Hayes**. There is a two-way sword there—one is the sugar beet growers have to make money on the rates in sugar beets and also the processor who is processing those sugar beets for the farmer has to make a return on his equity, and it just has not been there over the years.

Senator **Conrad**. Let me ask Mr. Couch, are you all getting rich?

Mr. **Couch**. No. I think if you take last year's statistic, I know it is hard to extrapolate 1 year, but it is typical of what is going on. The rate of return on investment in the Hawaiian industry, which incidently is one of the most efficient in the world, because we enjoy extraordinarily high yields—I think the return on investment last year averaged a negative 2 percent on the investment in the industry.

Senator **Conrad**. A negative 2 percent. How many sugarcane plants have closed in the last decade, do you know that?

Mr. **Couch**. In the past decade, I think you have to go in the past two decades to cover that. I think we had 22 plants and we have 12 today, that is refineries. As far as mills are concerned, there is a larger number of mills that have closed, but I think you have to go back because there has been consolidation in the industry. I do not have that statistic with me, Mr. Chairman.

Senator **Conrad**. We are now at 11:35 and we still have two important witnesses we want to hear from. I want to thank the members of this panel. We appreciate very much your being here today.

Next we will hear from the Honorable Edward A. Laing, the Ambassador of Belize and Mr. Arsenio Yulo, the Chairman and Administrator of the Philippine Sugar Regulatory Administration. I want to welcome you both and appreciate very much your taking the time to be here. Again, we very much appreciate your being here to share your views with the committee. This is the panel on international views. That is an important part of the sugar program and what we anticipate for the future. Mr. Laing, if you would proceed with your testimony and then we will hear from Mr. Yulo.

STATEMENT OF HON. EDWARD A. LAING, AMBASSADOR OF BELIZE, REPRESENTING HON. CARLOS MORALES TRONCOSO, VICE PRESIDENT AND AMBASSADOR OF THE DOMINICAN REPUBLIC, WASHINGTON, DC

Ambassador **Laing**. Thank you, Mr. Chairman.

INTRODUCTION

I represent the sugar industries of the Caribbean Basin countries, and I would like to express my deep appreciation for this opportunity of addressing this committee. I must also express apologies on behalf of His Excellency, Carlos Morales, the Ambassador of the Dominican Republic who was slated to give testimony today. He has been called away on very urgent matters of State.

So, Mr. Chairman, as you are aware, the countries of Central America and the Caribbean are going through an unanticipated and unprecedented process of political reconstruction. This process is in direct response to the efforts of the United States to spread the ideas of freedom and democracy throughout the hemisphere, particularly in the Central American and Caribbean area.

IN PLACE OF DIRECT FINANCIAL FLOWS FROM YOUR TREASURY, WE SUGGEST THAT FAVORABLE CONDITIONS OF TRADE BE SET IN PLACE

As this process of freedom and democracy evolves increasingly the focus turns to the importance of maintaining and fortifying that freedom and democracy. In place of direct financial flows from your Treasury, we suggest that favorable conditions of trade be set in place. The area of trade where the region has the most experience is, of course, sugar.

Sugar is an industry in which the CBI region also happens to be the most efficient. It is efficient not only in its ability to obtain maximum yields. Its efficiency extends to the reduction of production facilities. For instance, numerous plants have been closed in the Dominican Republic. And in my country Belize, one out of two plants was closed several years ago. In addition to that aspect of economic efficiency, I point to economic diversification which has taken place in the Caribbean Basin.

WE SUGGEST THAT TRADE SHOULD BE CONDUCTED ON A LIBERAL AND MULTILATERAL BASIS

We have moved away from sugar as far as is possible. We cannot move any further. We suggest that trade should be conducted on a liberal and multilateral basis. Therefore, in general terms, we support the process of dealing with agricultural trade in the GATT talks in the Uruguay round. Nevertheless, we remind this committee, Mr. Chairman, that Part IV of the General Agreement on Tariffs and Trade acknowledges the importance of favorable and preferential treatment of the developing countries.

We, therefore, have brought forward some proposals which tend to benefit all sugar exporting countries, not only the CBI countries. Of course, they have some additional modest benefits for the CBI countries. I therefore will summarize our proposals, and then I will address some remarks to an issue which came up this morning relating to human rights.

PROPOSALS

Our proposals will be given today in a nutshell. They are set out at greater length in the written testimony, which I hope will become a part of the record.

The first idea is to keep the current loan rate.

The second is to set a minimum sugar import quota for fiscal year 1990 to 1991 at 1,447,000 metric tons.

Beginning with fiscal year 1991 to 1992, increase the minimum quota annually by 110,600 metric tons until fiscal year 1995 to 1996, when the minimum quota would be 2 million metric tons. After 1995 to 1996, half of the yearly sugar consumption increases would be added to the minimum sugar import quota.

Another component would be to establish a special sugar reexport program. You will recall that such a program was almost established a couple of years ago. And we would like to see a sugar reexport program reestablished to make up the difference between the minimum quota which I have put at 1.4 million metric tons and 2 million metric tons.

The sugar reexport program would commence immediately and it would be a declining amount of sugar imported beginning in the year 1990 and declining to zero in 1995 through 1996.

Under that program, of course, raw sugars would be imported into the United States, in addition to the minimum import levels specified for each country for each fiscal year. And an equivalent amount of U.S.-produced refined sugar would be exported.

Finally, to avoid forfeitures to the Commodity Credit Corporation, marketing controls on domestic sugar would be automatically implemented in the situations in which they now are.

Now a companion to this program which I have described—this program as you see has two major branches—are the proposals for guaranteeing reasonable Caribbean Basin access within the framework of the Caribbean Basin Economic Recovery Improvement Act, otherwise known as CBI-II. That in a nutshell are ideas for your farm bill, along side the CBI-II.

RESPONSE TO TESTIMONY CONCERNING WORKERS—HUMAN RIGHTS

Mr. Chairman, remarks were made this morning which caught us by surprise, but we are not unprepared to deal with those remarks. Our preliminary response will be given in a moment or two. I would like to indicate that we anticipate that labor unions and other industry representatives will be getting back to this committee in full to deal with certain allegations made this morning.

Senator CONRAD. Let me just say that we would hold the record open for 2 weeks, so that there is sufficient time for a full response. So please understand and feel free to submit further testimony other than your preliminary response.

Ambassador LAING. Thank you very much, Mr. Chairman.

Senator BOSCHWITZ. That is enough time, I presume?

Ambassador LAING. Yes, I am informed that we will have enough time to do it in that period. Sugar workers in the CBI region are the highest paid workers, by and large, throughout our region. We cannot speak for other parts of the world, but as far as the CBI region is concerned, by and large, they are the highest paid workers. In many cases, for instance in my country Belize, they are provided all the benefits which are associated with honest enumeration and benefits for honest labor.

Farmers get 65 percent of the income which accrues from sugar in my country Belize. Not only that, in Belize the sugar production facility, the factory, is very largely owned by the workers. It is a worker-owned facility.

Senator BOSCHWITZ. As opposed to the farmers?

Ambassador LAING. As opposed to the farmers, right. Industry owned. Farmers, also I understand, have some share in it as well. Haiti, we understand supports the hiring of workers in the Dominican Republic and I am sure that you will be getting a response from the Dominican Republic about the conditions which have been alleged. We do not understand those conditions to be as alleged in the testimony this morning.

Throughout the region, and I can speak particularly from the experience of the English-speaking Caribbean, there is very adequate legislation protecting worker rights. As a matter of fact, we in the English-speaking Caribbean have raised concerns about desires which intermittently have been expressed here on Capitol Hill about introducing provisions for protection of worker's rights in various pieces of legislation dealing with the Caribbean, because our labor legislation is second to none in the world.

Not only do we have legitimate protections for workers in our legislative system, we have judicial protections, written constitutions even more ample than those of many other parts of the world, at least as far as the texts are concerned, and I think in terms of how they are implemented. We also are members—all of us—of the International Labor Organization and we subscribe to its conventions and recommendations.

Therefore, I would like to reiterate that the position in the CBI region, as far as worker rights and conditions of employment are concerned. They bear no comparison to what has been suggested this morning.

Mr. Chairman, many thanks for providing us with this opportunity of addressing you on this matter of such vital importance to our industry. Thank you very much.

[The prepared statement of Ambassador Troncoso and the prepared statement of the International Sugar Policy Coordinating Commission of the Dominican Republic follow:]

STATEMENT BY
THE HONORABLE CARLOS MORALES TRONCOSO
VICE PRESIDENT AND AMBASSADOR OF THE DOMINICAN REPUBLIC
BEFORE THE
AGRICULTURE SUBCOMMITTEE
March 6, 1990

Thank you, Mr. Chairman, for providing me with the opportunity to testify at this hearing. I am here today on behalf of the governments and sugar industries of the fourteen Caribbean and Central American countries that export sugar to the United States. As you are well aware, Mr. Chairman, our sugar industries are very dependent on access to the United States market for their survival and our economies depend heavily on sugar for jobs and foreign exchange. It is a fact that until our sugar situation is stabilized, it will be impossible to achieve economic growth and social stability in the CBI region.

The CBI sugar quota has been reduced by almost 50 percent in the past five years -- from more than 1.1 million short tons to 570,000 short tons today. This reduction has come about because of the internal United States political conflict between successive administrations seeking free trade and domestic producers seeking to protect their market from heavily subsidized European sugar exports. The Caribbean has been caught in the middle and we have been the net loser. Several sugar mills have had to be closed down in the region. In my country, the Dominican Republic, four mills have been closed and another is in the process of being closed.

These closures have resulted in a large number of lost jobs in societies that are already experiencing high levels of unemployment and under-employment. This is a serious social problem that directly impacts on the United States by our people seeking refuge in this country and placing an additional burden on your already strapped social programs. This situation also makes it difficult for our governments to implement effective programs to stop the production and shipment to the United States of illicit drugs.

The situation has deteriorated to such an extent that for reasons of economic, social and political stability, it is imperative that we have an increased guaranteed level of access to the United States sugar market. We are currently working actively with the Congress to achieve this objective in the Farm Bill. We cannot afford to be caught in the middle again.

Mr. Chairman, we have developed a comprehensive proposal on sugar for the consideration of the Congress. We believe that it will accomplish our goal of bringing stability to our sugar industry and that it is consistent with GATT. Significantly, it will hardly affect the domestic sugar industry.

Our proposal is as follows:

o Keep the current loan rate.

- Set a minimum sugar import quota for fiscal year 1990-91 of 1,447,000 metric tons.

- Beginning with FY 1991-92, increase the minimum quota annually by 110,600 metric tons until FY 1995-96, when the minimum quota will total 2 million metric tons. After 1995-96, half of the yearly sugar consumption increases forecast by the Secretary would be added to the minimum sugar import quota.

- Mandate a special sugar re-export program to make up the difference between the minimum quota and 2 million metric tons. The following amounts would be programmed by fiscal year until the 2 million ton level is reached:

Fiscal Year	Amount of Raw Sugar
FY 1990-91	553,000 Metric Tons
FY 1991-92	442,400 Metric Tons
FY 1992-93	331,800 Metric Tons
FY 1993-94	221,200 Metric Tons
FY 1994-95	110,600 Metric Tons
FY 1995-96	- 0 -

Under the special re-export program, raw sugars would be imported into the United States, in addition to the minimum import quota level specified for each country for each fiscal year. An equivalent amount of U.S.-produced refined sugar would have to be exported within 670 days from the entry of the raw sugar under this program.

For raw sugar to qualify for entry under this program, U.S. refiners, processors or operators would have to purchase the sugar with a U.S. 5-cent premium over the world FOB price. Should the 5-cent premium result in a higher FOB price than is being paid at the time of purchase for U.S. quota sugar, the premium should be lowered accordingly.

- To avoid forfeitures to the Commodity Credit Corporation (CCC), marketing controls on domestic sugar would be automatically implemented by USDA when the Secretary estimates that U.S. domestic sugar production plus minimum imports will increase the supply to a level that will cause the domestic market price to drop below the market stabilization price.

If the above program is adopted, our guaranteed access to the United States market would be restored to a level of 716,000 metric tons, or about three quarters of the 1982 import level. This should be sufficient to ensure stability of our sugar industries.

We believe that the net quota target of 2 million tons for all offshore suppliers would be consistent with GATT. A GATT panel recently upheld the Section 22 waiver which provides the United States with the authority to impose sugar quotas. Under this authority, quotas cannot be set lower than 50 percent of the amount imported during a representative base period. We believe the same base period (1975-81) should be used for this purpose as was used to establish each country's share of the United States quota. Sugar imports averaged about 4 million metric tons during that period.

Due to population growth, consumption of sugar is growing at an annual rate of about 1 to 1-1/2 percent or about 100 to 120 thousand tons per year. Increasing the minimum quota from the current import level to 2 million metric tons over five years should not result in the domestic sugar industry having to make a significant adjustment in sugar production during that period.

Mr. Chairman, we hope the above ideas will be given serious consideration by the United States Congress. We believe it is in the self interest of the Untied States to resolve the sugar issue. I look forward to working with you and the Congress on this issue of vital importance to our region.

BEFORE THE
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
OF THE
UNITED STATES SENATE

STATEMENT OF THE INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC*/

March 23, 1990

Introduction

It is vital to the Dominican Republic that its traditional levels of access to the U.S. market be restored as soon as possible. Any attempt to increase foreign suppliers' access by reducing prices in the U.S. market would not have its intended effect, and, for the reasons set forth herein, any such action on a unilateral basis would be counter-productive to the interests of the Dominican Republic and other foreign suppliers, given the current structural defects in the world market that include export subsidies and import barriers. Until such defects are eliminated, or greatly reduced, by multilateral action, the Dominican Republic, and other CBI suppliers must have increased access to the U.S. market at current prices in order to prevent the collapse of their sugar industries and, perhaps, in the case of the Dominican Republic, its economy.

The Dominican Sugar Industry

The Dominican Republic is the principal foreign supplier of sugar to the United States, having a 17.6 percent share of the allocated quota. Until the early 1980s, the Dominican Republic maintained a fairly stable sugar production, with about 1 million short tons, representing 80 percent of total production, available for export. Between 1975 and 1981 yearly shipments to the United States averaged approximately 805,000 short tons. Since 1983, however, four sugar mills have closed down completely and the remaining twelve are presently operating on average at only 65 percent of normal levels.

Sugar is still the cornerstone of the economy of the Dominican Republic. Historically, ten percent of the population of the Dominican Republic has been dependent on the sugar industry for its livelihood. In the last decade sugar exports have accounted for thirty percent of the country's total export earnings. Even though the relative importance of the sugar industry in the Dominican Republic has decreased in recent years (due to the adverse conditions affecting it), its failure would, nonetheless, strike a mortal blow to the economy of the Dominican Republic and, perhaps, to the country's political stability.

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*/ The International Sugar Policy Coordinating Commission is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

It is fatuous to think that the Dominican Republic could "diversify" its economy any more to be less dependent on sugar. The Dominican Republic has undertaken heroic efforts on its own to diversify over the last decade. However, since sugar cane is grown in poor soils, the only other feasible use for the lands remaining in sugar production would be cattle grazing, which employs only one-thirtieth as many workers and generates only a small fraction of the revenue that sugar cane does.

The World Sugar Market

About 80 percent of global sugar production is sold under protected or preferential marketing arrangements. This means that free market forces act only on the remaining 20 percent. For that reason free market prices are highly sensitive to even small imbalances between world supply and demand. The result is that sugar prices in this residual market fluctuate widely.

For a number of years the world "free sugar market" has been overburdened by mountainous highly-subsidized surpluses from the EEC, the inelasticity of which has caused prices to drop to levels far below the price support levels in the United States.*/ In 1982, for example, the free sugar market was burdened by about 6 million tons of the EEC's subsidized surpluses which were exported in violation of GATT. This figure represented over 30 percent of the volume of the free market.

Changes in Price Support Levels

Various proposals have been put forth to lower the sugar price support loan level for raw cane sugar and thereby bring U.S. prices in line with current world prices, which are reflective of the costs of production of low cost producers. Such action would presumably increase the access of offshore suppliers to the U.S. market.

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*/ The EEC has spent as much as one billion dollars a year on export subsidies, which is an insignificant sum in the context of the EEC economy. Such massive subsidies have exerted tremendous downward pressures on prices in the free market, and have had extremely deleterious effects on developing countries that rely heavily on sugar export earnings for foreign exchange.

While such proposals have a theoretical basis that could appeal to "free market" economists, by allowing those sugar producers with natural "comparative advantage", such as the Dominican Republic, to supply the U.S. market, they would not, unilaterally, achieve their intended effect because of the aforementioned structural defects in the world market. For such proposals to have a salutary effect, there must be significant reductions in sugar export subsidies by the principal industrial countries and significant reductions in protective measures erected in the principal markets.

1. Current Situation

For the past year or so sugar has been in tight supply in the world market. If prices are reduced in the U.S. market and world supplies remain tight, world prices may rise as the least efficient producers go out of business. Under this set of circumstances, any reduction in U.S. price support levels would have a neutral effect on the CBI suppliers, because their increased revenues in the world market would be offset by decreased revenues on sales to the U.S. market.

2. Probable Outlook

Nevertheless, the previously-described structural defects still characterize the world market, with almost every country committing some variety of sin against free trade in sugar. The EEC is the biggest sinner; its sugar regime involves some of the highest support prices and export subsidies and is the most damaging to the structure of the free market. Under such circumstances, if supplies increase, world prices may plummet and the CBI countries would not realize any net gain from any increased access to the U.S. market that might be achieved under lowered support prices because the remainder of their sugar would have to be placed in the world market under depressed conditions, so long as the EEC continues its subsidy practices. In fact, the result would be a net loss in revenues from sugar export sales.

3. View of the Dominican Republic

As the International Sugar Policy Coordinating Commission has stated numerous times, sugar is more important to the economy of the Dominican Republic than to any other country's economy. Furthermore, because of the instability in the world market, the U.S. market is of overriding importance to the Dominican Republic and changes in the U.S. market have far-reaching effects in the Dominican economy.

Under the current price support levels in the U.S. market, the Dominican Republic can sell its sugar to U.S. destinations at about 20 cents per pound, F.O.B. This allows the Dominican Republic to sell the remainder of its production in the world market when prices range between 7-10 cents per pound and still obtain an average return (on U.S. and world market sales) that covers its cost of production.

However, because of its reduced access to the U.S. market since the quota was imposed in 1982, the Dominican Republic has been forced to close mills and take land out of production because of the loss in revenues on sales to the U.S. market and the depressed prices that generally prevailed in the world market. Thus, since 1982, the Dominican Republic's sugar production has fallen by half a million tons, from 1.2 million tons to 700,000 tons, with 250,000 tons lost from production previously sold in the U.S. market and 250,000 tons lost from production previously sold in the world market.

If price support levels were lowered in the United States in the 1990 Farm Bill, the Dominican Republic would realize lower prices on its sales to the U.S. market, which would concomitantly lower its ability to sustain sales in the world market when prices fall to the 7-10 cents per pound range, which is certain to occur, absent successful multilateral action on subsidies and import barriers. The result would be disasterous for the Dominican economy since there is no alternative source of income to sugar export earnings.

Recommendation

The Dominican Republic would counsel against any lowering of U.S. price support levels and, instead, would recommend, until the EEC phases out its subsidies, a U.S. sugar program with Lomé Convention-type elements, featuring control of domestic production and guaranteed minimum quotas. Specifically, such a program would include (1) setting the overall guaranteed minimum import quota for all countries at not less than the 1990 level of 1.5 million metric tons; (2) providing that additions will be made to the base import quota as consumption increases in the United States until the quota reaches a level of 1.9 million metric tons, at which level only one half of domestic consumption will accrue to the base quota; (3) mandating a re-export program to provide for the re-export of refined sugar tonnages equal to the difference in the base quota and 1.9 million metric tons and providing for a phase-out of such program in parallel with phase-outs of export subsidies by the EEC; and (4) establishing standby production and marketing controls on sugarcane, sugarbeets and high fructose sugar in crystalline form, to prevent sugar loan forfeitures that could result from excess domestic sugar production. Furthermore, the Dominican Republic recommends against using a tariff rate quota in connection with the above-described elements.

Enactment of such legislation would make the U.S. sugar program GATT legal and would restore the Caribbean and Central American countries' access to the U.S. sugar market without harming the domestic sugar industry.

Furthermore, such a program would go a long way to restoring the economies of the sugar-exporting countries in the Caribbean and Central America, and to facilitating economic development and stability in the region.

Senator CONRAD. Thank you very much for your testimony.

Next we will hear from Mr. Yulo and take your testimony. Please proceed.

STATEMENT OF ARSENIO B. YULO, JR., CHAIRMAN, PHILIPPINE SUGAR REGULATORY ADMINISTRATION, QUEZON CITY, THE PHILIPPINES

Mr. YULO. Thank you, Mr. Chairman. First I would like to request, Mr. Chairman, that our written statement be made part of the record, and may I be allowed to summarize that statement briefly?

Senator CONRAD. Absolutely.

Mr. YULO. Thank you.

INTRODUCTION

If I may, I will introduce myself. I am Arsenio Yulo. I recently served as Chairman of the International Sugar Council and since 1985, I have served as Chairman of the Philippine Sugar Regulatory Administration. On behalf of the other members of the Philippine Sugar industry, Mr. Chairman, let me say we greatly appreciate the opportunity to appear before you today.

I will summarize now my written statement which has been submitted to you.

IMPORTS

In 1984, the United States imported over 3 million short tons of sugar. In 1985, imports totaled over 2 million short tons, but in 1987 and 1988 import limits were set at roughly a million short tons. This reduction in the U.S. quota had predictable and disastrous consequences for suppliers.

PRODUCTION AND WORK FORCE

The value of Philippine sugar exports fell from roughly $125 million in 1985 to less than half that total in 1987 and 1988. From a total Philippine sugar work force of some 500,000 in 1983, about 200,000 were displaced partly as a result of the quota cutbacks. Production areas were reduced by almost one-half of the total area that was then planted to sugarcane. Naturally, Mr. Chairman, the drop in production was of the same magnitude.

The numbers that joined the unemployed contributed to the growth of the Communist insurgency, particularly on Negros Island. Also with the economic disruptions came political instability in the sugar areas.

U.S. SUGAR POLICIES HAVE VERY REAL EFFECTS ON PHILIPPINE ECONOMIC AND POLITICAL LIFE

That brings us to the reason for today's hearing, the next U.S. sugar program. It would not be appropriate for me to tell the United States or this committee what type of sugar program it should enact. On the other hand, I believe it is proper and hopefully useful for me to describe the impact that various types of programs would have on the Philippines, since as I have described, U.S. sugar policies have very real effects on Philippine economic and political life.

FIVE GENERAL APPROACHES

As I understand it, there are at least five general approaches that various commentators and interested parties have discussed with respect to the next U.S. sugar program.

MAINTAINING THE EXISTING PROGRAM

First, maintaining the existing program. Without some changes in the current sugar program, it is entirely possible that the U.S. sugar production will rise again. If U.S. production rises, quotas will almost certainly have to be reduced again, with the attendant devastating impact on offshore suppliers.

CONVERSION TO A TARIFF/FEE BASED PROGRAM

Second, conversion to a tariff/fee based program. This approach would restrict sugar imports through the imposition of increased tariffs and fees. By itself, it would not solve the fundamental problem of potentially wide swings in quota levels and it could well upset long established trading relationships.

TARIFF RATE QUOTAS

Third, tariff rate quotas. Under this approach, imports would be subject to prohibitive tariffs above established import quota levels. As we understand it, the quota might or might not be allocated among suppliers. Again, under this approach there would be no assurance that import quotas would not have to be cut to maintain U.S. domestic prices at no net cost levels.

REDUCTION IN PRICE SUPPORT LEVELS

Fourth, reduction in price support levels. Proponents of lower price supports believe they would lead to reduced U.S. sugar production and a resulting increase in imports. While this shift from domestic to foreign sources of supply could well occur, Mr. Chairman, it is also possible that the additional imports would be at lower prices. This would, of course, offset either in part or totally, the benefits that foreign quota holders derive from any increases they are granted.

PRODUCTION/MARKETING CONTROLS, WITH MINIMUM IMPORT QUOTAS

Fifth, production/marketing controls, with minimum import quotas. A more direct approach to supporting U.S. producer prices, while limiting the growth in U.S. production and the consequent decline in imports, is the imposition of production or marketing controls on the various sectors of U.S. sweetener producers, coupled with the establishment of reasonable minimum import quotas. While some have expressed philosophical reservations about such an approach, there are also advantages. Offshore suppliers could anticipate stable or increased exports. Both offshore suppliers and U.S. producers could also anticipate that price levels would not be overly adversely impacted by such a program. Such a program also appears to provide the means for the United States to respond to criticisms of the current program raised in the GATT.

CONCLUSION

From the Philippine viewpoint, whichever one of these options or variations thereof is pursued should take into consideration, Mr. Chairman, the unique nature of the U.S.-Philippine sugar relationship. We have exported sugar to the United States for over two centuries and for almost the entire period have one of the two major suppliers.

This long-standing relationship has for the most part been beneficial to both parties. We seek to have it continued in the stable environment in which existed throughout most of our trading history.

I TAKE EXCEPTION TO THE TESTIMONY GIVEN HERE BY THE GENTLEMAN, MR. LEWIS, ABOUT THE WORKING CONDITIONS IN THE PHILIPPINES AND INHUMAN TREATMENT OF THE FARM WORKERS

In conclusion, Mr. Chairman, I take exception to the testimony given here by the gentleman, Mr. Lewis, about the working conditions in the Philippines and inhuman treatment of the farm workers. I reserve my right to meet the written and oral statements regarding the working conditions, because what he has submitted to the committee is very exaggerated. I will say it is far from the truth of what is now existing in the sugar areas in the Philippines.

[The prepared statement of Mr. Yulo follows:]

TESTIMONY
OF
ARSENIO B. YULO JR.
CHAIRMAN

PHILIPPINE SUGAR REGULATORY ADMINISTRATION

BEFORE THE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

U.S. SENATE
MARCH 6, 1990

STATEMENT OF ARSENIO B. YULO, JR.

Chairman, International Sugar Council

and

Chairman, Philippine Sugar Regulatory Administration

Thank you Mr. Chairman -

If I may, I will introduce myself. I am Arsenio Yulo. I recently served as Chairman of the International Sugar Council and since 1985 I have served as Chairman of the Philippine Sugar Regulatory Administration.

The International Sugar Council is the executive body of the International Sugar Organization (ISO). The ISO has administered the succeeding International Sugar Agreements (ISA's) since 1937. For most of the past 50 years, the United States has been a signatory to the ISA's. Today, about fifty countries, including the U.S., are ISA signatories. The general purpose of the ISA is to stabilize the world price of sugar but since 1984, the ISA has not had economic provisions with which to address this most difficult task.

As this Committee is fully aware, commodity prices in general are subject to considerable volatility and none more so than sugar. In November 1975, the world raw sugar price was 57 cents per pound. A year later the price was 13 cents a pound, and by May of 1985 it was under 3 cents. Those price drops were difficult for all sugar exporters. They were disastrous for those producers which had no quotas for export to markets such as Great Britain which had price support programs for imported and domestic sugar.

In 1989, world raw sugar prices rose from less than 10 cents a pound in January to 14 cents a pound in August and have remained in that range. USDA's December, 1989, Sugar and Sweetener Situation and Outlook Report forecast world sugar production for the crop year ending September 30, 1990, at 105.7 million metric tons, with global consumption for the same period at 108.1 million tons. If this forecast is correct, this will be the fifth straight year that consumption exceeds production. This trend is likely to draw down global stocks to their lowest level since 1980/81. These projections have helped firm prices and have contributed to forecasts of further price increases by some analysts.

However, not all the news in the sugar world over the last several years has been good. Here in the United States, import quotas have been severely reduced. In 1985, U.S. sugar imports totaled over two million short tons, but in 1987 and 1988 import limits were set at roughly a million short tons. This 50% reduction in the import quota had predictable and disastrous consequences for suppliers.

Although my country is currently the second largest quota holder, quota cutbacks have reduced the value of our exports from roughly $125 million in 1985 to less than half that total in 1987 and 1988. Since sugar is one of our most important exports, the negative political and economic effects were magnified.

From a total workforce of some 500,000 in 1983, about 200,000 were displaced partly as a result of the quota cutbacks. Production areas were reduced by almost one half of the total area that was then planted to sugar-cane. Naturally, the drop in production was of the same magnitude.

The numbers that joined the unemployed contributed to the growth of the communist insurgency on Negros Island alone.

Similarly, incomes dropped and this affected government revenues as well.

All told, with economic disruption came political instability in the sugar areas.

In the third quarter of 1989, the trend of sharply declining imports was reversed. As you know, on September 12, the current sugar quota period was extended by nine months to September 30, 1990, and the quota was increased to 1.98 million metric tons. It was further increased to 2.2 million metric tons on November 24th and increased again to 2.58 million metric tons on January 16th, 1990.

That brings us to the reason for today's hearing -- the next U.S. sugar program. It would not be appropriate for me to tell the United States or this Committee what type of sugar program it should enact. On the other hand, I believe it is proper and hopefully useful for me to describe the impact that various types of programs would have on the Philippines. As I have described above, U.S. sugar policies have very real effects on Philippine economic and political life.

As I understand it, there are at least five general approaches that various commentators and interested parties have discussed with respect to the next U.S. sugar program. I will address each while not meaning to imply in any way that their presentation is in order of preference.

1. Maintaining the existing program - As the Committee is well aware, under the current sugar program there has been an upward trend in U.S. production and an overall decrease in imports. While the sharp drop in imports which occurred from 1984 to 1988 stopped in 1989 because of a variety of weather and other factors, these conditions may not be repeated. Without some changes in the current sugar program, increases in U.S. production may well occur again. If U.S. production rises, quotas may have to be reduced again, with the attendant devastating impact on offshore suppliers. Some experts have even suggested that under these circumstances the U.S. could eventually become a sugar exporter.

2. Conversion to a tariff/fee based program - If the U.S. determines to continue to restrict sugar imports, it could abandon quotas and administer such a policy through tariffs and fees. This approach is complicated and may upset long-established trading relationships and patterns.

We understand current U.S. law permits the duty-free entry of sugar from some sources under two separate programs, the Generalized System of Preferences and the Caribbean Basin Economic Recovery Act. However duty free entry can be terminated administratively and in any event such imports would continue to be subject to fees. Since the fee could well prove to be much more significant than the tariff under a tariff/fee program, this would deny or mitigate the intention of the preference programs and might have the unintended consequence of concentrating U.S. imports from only a few countries. And because there is an upper limit to the tariffs and fees that may be charged under current authority, it is obvious that if world prices decline below certain levels which have been reached in recent years, the tariffs and fees could prove insufficient to restrict U.S. imports to desired levels.

3. Tariff rate quotas - It is also possible to protect the domestic price support program and control imports through a tariff rate quota program. Under this approach, imports would be subject to prohibitive tariffs above established import quota levels. Again, under this approach there would be no assurance that import quotas would not be cut to maintain U.S. domestic prices at "no net cost" levels, if that provision is retained in the new farm bill. Offshore suppliers like the Philippines would again be subjected to potentially wide fluctuations in the U.S. quota levels because of factors beyond their control.

4. Reduction in price support levels - Proponents of lower price supports believe they would lead to reduced U.S. sugar production and a resulting increase in imports. While this shift from domestic to foreign sources of supply could well

occur, it is also possible that additional imports would be at lower prices. This would of course offset either in part or totally the benefits that foreign quota holders derive from any increases they are granted.

5. Production/marketing controls, with minimum import quota - A more direct approach to supporting U.S. producer prices, while limiting the growth in U.S. production and the consequent decline in imports, is the imposition of production or marketing controls on the various sectors of U.S. sweetener producers coupled with the establishment of reasonable minimum import quotas. While some have expressed philosophical reservations about such an approach, there are also advantages. Offshore suppliers could anticipate stable or increased exports. Both offshore suppliers and U.S. producers could also anticipate that price levels would not be overly adversely impacted by such a program. Such a program also appears to provide the means for the U.S. to respond to criticisms of the current program raised in the GATT.

From the Philippine viewpoint, whichever one of these options or variation thereof is pursued should take into consideration the unique nature of the U.S.-Philippine sugar relationship.

The United States has had a sustained relationship with the Philippine sugar industry. By the early twentieth century this involvement had developed from a purely commercial relationship to one in which U.S. policy actively encouraged the development of the sugar industry in the Philippines. This policy, which was in furtherance of a wide range of U.S. interests as well, remained intact until 1974.

In that year the expiration of both the Laurel-Langley Trade Agreement and the U.S. Sugar Act led to devastating consequences for the Philippine sugar industry. At that time Philippine sugar production had reached 2.7 million tons, of which over 1.5 million tons was exported to the United States: almost overnight the Philippine sugar industry was taken from a secure and formally established trade relationship and thrown into the volatile and generally depressed free world sugar market of which the U.S. had then become a part.

The Philippines sold to international trading houses which in turn sold the sugar in whatever market yielded the best price. As a result the volume of Philippine sugar exports to the U.S. fluctuated widely from year to year following the fluctuations in prices, and declined to 13.5 percent of total U.S. imports for the seven years preceding 1981.

In May, 1982, the U.S. reinstituted the system of country quotas for foreign sugar as an emergency measure designed to protect its domestic industry. Under the new program the U.S. import requirements were allocated to foreign suppliers on the basis of their export performance during the period between 1975 and 1981, inclusive, excluding the years of the highest and lowest entries. On this narrow and non-representative basis, the Philippines was allotted a 13.5 percent share of the U.S. import sugar market, ranking third after the Dominican Republic and Brazil with 17.6 percent and 14.5 percent shares, respectively.

This Presidential action was later written into law. Viewed in light of U.S. policy and the historical position of the Philippines as a sugar supplier to the U.S., it was manifestly unjust that the allocation of the Philippine quota in 1982 was made on the basis of exports during the highly unusual 1975 to 1981 period. This decision, like the 1974 expiration of the Sugar Act, had devastating consequences for the Philippine sugar industry and its workers. Production fell and many mills closed. The remainder operated much below capacity. Thousands of mill and farm workers became jobless. Enormous social discontent and economic suffering followed.

The Philippines still depends on the sugar industry for its substantial contribution to foreign exchange earnings, so essential to the economic development of the country, not to mention to the servicing of the country's foreign debt.

The Philippine Sugar Regulatory Administration, organized under the provisions of Executive Order No. 18, issued on May 28, 1986 by President Corazon C. Aquino, has taken steps to ensure that sugar production is sufficient to supply both a domestic market that is growing with general economic recovery, and an export market that generates vital foreign exchange. Under the Administration's Crash Production Program. production has risen from a low of 1.3 million MT production in 1986 to almost 1.6 million MT for the 1988-1989 crop. Production in the 1989-1990 crop year has been initially estimated at 1.7 million MT, and the program calls for a production of 2.1 million MT by 1991-1992 crop. This will enable the Philippine sugar industry to supply a minimum of 300,000 MT in the U.S. market, and still have supplies available for the free world market as well as growing domestic requirements.

A minimum share of the U.S. market in the level of 300,000 MT will stimulate the Philippine sugar industry to maintain the impetus brought about by the Crash Sugar Production Program.

A minimum share as mentioned above will mean more hectarage planted to sugarcane, improved utilization of milling capacity, and more jobs for more people in the sugar industry in all 17 provinces of the Philippines. This increased economic activity will bring more income to the countryside and more tax revenues to the government, contributing to a better quality of life in the sugar-producing regions, and in the country as a whole.

Thank you.

Senator Conrad. We certainly will respect your right to provide additional testimony regarding the position of the Philippines with respect to assertions and allegations that have been made. From your analysis what has been the effect of the EC sugar program on sugar markets and the sugar industry in your respective countries? Ambassador Laing.

Ambassador Laing. I do not have appropriate data to answer that question directly. But to the extent that imports from third countries into the United States proliferate, then to that extent I would have to say that all industry tends to suffer, or the potential for suffering of all industry certainly exists; especially, of course, if those imports are subsidized. But I do not have actual data to demonstrate how this has taken place.

Senator Conrad. All right. Mr. Yulo, if you would want to comment on that?

Mr. Yulo. I think I have to say the same, because I do not have the records to review here. So I take the same view as the gentleman from the Caribbean country.

Senator Conrad. Ambassador Laing, you said in the testimony on behalf of CBI that until our sugar situation is stabilized, it will be impossible to achieve economic growth and social stability in the CBI region. Could you point to a period when the sugar situation was stabilized? And could I ask specifically were the workers in the cane fields better off at some previous period? For example, were they better off in the 1974 and 1975 timeframe or in 1980 and 1981 when world sugar prices were extremely high?

Ambassador Laing. I neither have a crystal ball nor that kind of memory. I would say that conditions of workers have generally tended to be improving. I cannot say, therefore, that conditions of workers in those times past were better because there are other factors which contributed to the improvement of conditions of living and the state of social conditions. So I cannot say that at some time past there were halcyon days which we do not now have. That is as far as I can go on that question.

Senator Conrad. I appreciate that. Mr. Yulo, let me ask you, how important is the premium price associated with the U.S. market? How important is that to Philippine sugar industry?

Mr. Yulo. It is very important, Mr. Chairman, because with our domestic price, plus the exports to the United States at a premium price, our farmers will be able to have a reasonable return of their investment. This is very important in our economy, Mr. Chairman.

Senator Conrad. Let me follow that up and ask you in the opinion of the Philippines, what would it mean if the U.S. sugar program was eliminated? What would be the effect on the Philippine sugar industry?

Mr. Yulo. Reducing of the quota, Mr. Chairman, has a great effect. Withdrawing that would be more disastrous on our sugar market in the Philippines.

Senator Conrad. So your testimony would be that a complete elimination would have a disastrous effect. That would not be misstating the sense of what you have said?

Mr. Yulo. I did not understand what you meant, Mr. Chairman.

Senator Conrad. That the effect would be disastrous?

Mr. Yulo. Disastrous, yes, especially to a lot of farm workers that would be displaced. They have no work.

Senator Conrad. Senator Boschwitz.

Senator Boschwitz. Thank you, Mr. Chairman. Let me ask if I may a few questions of you. Mr. Yulo, are you from the Island of Negros? Is that the way it is properly pronounced?

Mr. Yulo. Yes.

Senator Boschwitz. Are you from that island?

Mr. Yulo. Yes. I am from that island.

Senator Boschwitz. Can you tell me, is it an island to the west of the main Philippine island and it lies kind of from southwest up northeast? It is a long thin island laying like that.

Mr. Yulo. It is in the southern part.

Senator Boschwitz. To the southern part up to the west?

Mr. Yulo. Of Manila.

Senator Boschwitz. It is off to the west?

Mr. Yulo. Yes, to the west.

Senator Boschwitz. Could you tell me how is the land owned on this island? Are there principally large tracts or are they small tracts individually owned, as well?

Mr. Yulo. The majority of the land owners, I think, about 90 percent ranges from 5 hectares—that is 10 acres to about 25 acres. Only very small portion are owned by large land tract owners.

Senator Boschwitz. What percentage of the land is owned by the large land owners? What percentage of the land is owned by the small land owners?

Mr. Yulo. I would say, if you could see the big land owners as ranging from 25 up. That is about 10 to 15 percent of the land.

Senator Boschwitz. Not of the owners?

Mr. Yulo. I think the owners.

Senator Boschwitz. The large——

Mr. Yulo. Let me explain, Mr. Senator. Take the case of 100 percent of the land. Only 15 percent of this is owned by big lot owners, and 75 percent of the land is owned by small planters, farmers.

Senator Boschwitz. Are the small farmers engaged in sugar as well or are only the large farmers engaged in sugar?

Mr. Yulo. Many of the small growers own this land. There are 30,000 up to 35,000 growers in our country of sugarcane.

Senator Boschwitz. On the Island of Negros?

Mr. Yulo. Fifty-two percent of these are in Negros.

Senator Boschwitz. Fifty-two percent of the sugar of the Philippines are in Negros?

Mr. Yulo. In Negros, and all the rest is scattered in 17 provinces.

Senator Boschwitz. I see. In your country, Mr. Laing, is a country that is quite small and has what 250,000 people?

Ambassador Laing. About 205,000 to 210,000 people. The country is the size of Massachusetts.

Senator Boschwitz. Of those 205,000 people, how many rely on sugar?

Ambassador Laing. I would say about 10,000 people directly rely on sugar. Many others, perhaps another 10,000–15,000, rely on it less directly.

Senator BOSCHWITZ. And 10,000 workers or 10,000 people, including families?

Ambassador LAING. People including workers and farmers.

Senator BOSCHWITZ. Workers and their families?

Ambassador LAING. Farmers. I am not including families. The number would have to be larger than that.

Senator BOSCHWITZ. Tell me about the land distribution makeup and beliefs?

Ambassador LAING. The land distribution makeup in the sugar district which is to the north of the country is very equitable. Farmers are not tremendously large land owning farmers, as far as sugar is concerned. The ownership is mostly in the hands of relatively small farmers, small landowners that is.

Senator BOSCHWITZ. How many sugar plants, producing the——

Ambassador LAING. One sugar plant.

Senator BOSCHWITZ. And you say that is owned in a cooperative manner?

Ambassador LAING. It is owned in a cooperative manner. The worker participation—I do not have the numbers—is something like 80 percent of ownership.

Senator BOSCHWITZ. Really.

Ambassador LAING. Yes.

Senator BOSCHWITZ. How many people work at the sugar plant?

Ambassador LAING. I am not sure of the numbers. I think in excess of 1,000 people work in the plant.

Senator BOSCHWITZ. You remember the British Commonwealth, I presume?

Ambassador LAING. Yes.

Senator BOSCHWITZ. I know that certain trade and treaty advantages have been granted to members or formers members of former colonies that are now members of the British Commonwealth. Do you have such trade advantages?

Ambassador LAING. Yes. Under the Lomi Convention which provides trade and other benefits for other countries from Africa, the Caribbean and the Pacific, not only British Commonwealth countries, but other countries, countries which were former colonies of the EEC, there are benefits.

Senator BOSCHWITZ. Do you ship most of your sugar then to the EEC?

Ambassador LAING. We ship some sugar here, some to the EEC. Not most to the EEC at the moment.

Senator BOSCHWITZ. That is the experience. What percentage goes to EEC?

Ambassador LAING. The percentage—I am trying to recall the numbers.

Senator BOSCHWITZ. Roughly.

Ambassador LAING. Roughly about 40 percent, I think, goes to the EEC.

Senator BOSCHWITZ. Is that the same for other islands in the Caribbean that are formerly colonies which is all, I guess, with the exception?

Ambassador LAING. Yes, that is the experience of the other countries. However, incidently, talking about diversification and efficiency in the sugar producing English-speaking region, several countries have completely moved away from sugar. Sugar used to be grown in most of the islands. Today, there are several which have stopped growing and exporting sugar entirely.

Senator BOSCHWITZ. What kind of prices do you get from the EEC?

Ambassador LAING. Again, I do not have figures at my fingertips.

Senator BOSCHWITZ. Would you please try to submit that for the record? Are the prices as high as you get when you ship to the United States?

Ambassador LAING. I think they are slightly lower than in the United States.

Senator BOSCHWITZ. But yet above the world market?

Ambassador LAING. Well above the world prices, yes.

Senator BOSCHWITZ. The Philippines, do you also have a market in Europe? You have no connection, of course?

Mr. YULO. We have no market now in Europe, Senator.

Senator BOSCHWITZ. Where is your market, principally in Asia then?

Mr. YULO. If you talk of outside of the Philippines, it is only in the United States.

Senator BOSCHWITZ. You do not ship sugar to Japan or Taiwan?

Mr. YULO. No.

Senator BOSCHWITZ. Your entire export market is the United States?

Mr. YULO. Yes, Senator.

Senator BOSCHWITZ. Your are quite a large sugar producer?

Mr. YULO. Yes, before we were producing 2.7 million tons. We dropped to 1.3 million tons.

Senator BOSCHWITZ. Metric tons.

Mr. YULO. And we are now improving in our production. We will be producing 1.7 million tons this year and the quota that you gave us is about 382,000. That is an improvement during the last 2 years. And of course, Negros Island has also improved because of that.

Senator BOSCHWITZ. I would appreciate getting more information from you, Mr. Ambassador. I would also look forward to having a submission by both of you with respect to the remarks that were made earlier. I had not been aware of those and perhaps through ignorance and perhaps I should have been aware, but I would be interested in seeing how you respond to that. Those are very serious allegations made here in the committee this morning.

I want to compliment, Mr. Chairman, in allowing the Ambassador from Belize and the Chairman of the International Sugar Council. Are you a sugar grower, Mr. Yulo?

Mr. YULO. Yes, I grow sugar.

Senator BOSCHWITZ. How many acres do you have or hectares?

Mr. YULO. I have about 40 hectares, Senator.

Senator BOSCHWITZ. Forty hectares, 100 acres. Do you also have an interest in the sugar mill, the processing mill?

Mr. YULO. Before entering into the government, Senator, yes.

Senator BOSCHWITZ. Now the government owns the mill?

Mr. YULO. Yes, about 4 years ago, but I had to resign my position in the sugar mill.

Senator **Boschwitz**. So you are not one of the owners of the plant of the sugar processing plant?

Mr. **Yulo**. No, I am only a worker in the sugar plant.

Senator **Boschwitz**. You have, as you say, 100 acres. Is your principal crop sugar?

Mr. **Yulo**. Yes, that is my principal crop.

Senator **Boschwitz**. I would be interested in seeing that. Again, I want to compliment you, Mr. Chairman. It is unusual, I might say in a committee to have testimony from foreign witnesses, and I think it has added something to the testimony. I see that the Vice President and Ambassador of the Dominican Republic also submitted testimony. I presume that will be made part of the record as well.

Senator **Conrad**. It will indeed.

Ambassador Laing

Ambassador **Laing**. Just one brief addendum. I must be fair to my colleagues from the mainland, the Spanish-speaking colleagues from the mainland, in saying that I did not address any remarks to the situation of workers in that part of the CBI region. That information will be forthcoming, but from my observation and understanding, the situation as I described it for the English-speaking countries generally holds quite true in those countries.

I am given to understand, for instance, that the land reform in El Salvador has taken hold quite significantly in the sugar producing area. I have also been informed and I recall that recently some of the sugar producers in the United States within the last 3 or 4 weeks visited Guatemala, had a very encouraging series of exchanges with the CBI sugar producers who I represent here today. And I think they spent a considerable period of time looking over the production facilities, including the situation of the workers, and I believe they found it satisfying.

This information as I said, however, will be supplied to you in more detail.

Senator **Boschwitz**. Are you considered a large grower, Mr. Yulo? Is your 100 acres or 40 hectares, larger or smaller than the average?

Mr. **Yulo**. I think it is in the middle, I would say.

Senator **Conrad**. If there are no other questions, I want to again thank the Ambassador and Mr. Yulo very much for your participation. I do think it added something to the work product of the committee. I want to thank all of the witnesses here today. I think we had some excellent representatives. Again, we will leave the record open for 2 weeks for any additional testimony that people would like to submit.

With that, we will declare this hearing adjourned.

[Whereupon, at 12:12 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF HON. JAMES A. MCCLURE, A U.S. SENATOR FROM IDAHO

Mr. Chairman: Thank you for allowing me to express my concerns about the U.S. sugar program before the subcommittee today. As Congress begins to review the current U.S. sugar program as a part of the 1990 farm bill debate, I would like to state the real purpose of the Sugar Act is to maintain a healthy and viable domestic sugar industry. The current program was carefully designed to be fair to the domestic producer of sugar beets and sugarcane while at the same time provide a reliable supply of sugar to American consumers at fair and stable prices. I believe that as it currently exists, the sugar program does just this.

Because this hearing is on provisions of the farm bill and its purpose is to reauthorize farm programs, we need to remember that trade issues and foreign aid issues should not confuse the real issues of producer protection and consumer price stability.

Let me start off with a few statistics about sugar beet production in my home State of Idaho. Sugar beets is the third largest income producing crop in the State and the only crop that is 100 percent value added through processing in Idaho. About 1,800 farms, mostly family farms, produce approximately 4,700,000 tons of sugar beets which is the equivalent of over $170 million. This provided farm income, paid property, sales and income taxes and created many more jobs in supporting agriculture businesses. Amalgamated Sugar Company has over 1,200 full-time employees and 1,600 part-time employees statewide and in eastern Oregon. Salaries and wages paid were approximately $34 million.

In short this crop has a major impact on Idaho's economy. Without the Sugar Act it is doubtful that Idaho would have any sugar beet industry. If current sugar policy is unilaterally dismantled, either through congressional action in the 1990 farm bill or through negotiations in the GATT, the sugar beet industry in Idaho will likely not survive.

Opponents of the sugar provision of the farm bill argue that the United States should not have a sugar program that benefits only a handful of growers at the expense of all consumers. This argument is erroneous and ignores complex relationships in agriculture and in international sugar production and sales. Not only would the loss of the sugar program create severe impacts on sugar beet farmers as they would immediately lose millions of dollars of asset values in machinery and land, but other farmers would also be impacted. As sugar beet farmers turned to other crops such as wheat, barley, beans, corn, onions, potatoes and seed crops surpluses would develop, causing farm gate prices to fall drastically. This causes damage to both program crop and nonprogram crop farmers and could cost the Federal Government additional dollars in Federal farm program assistance. In addition, this could cause another round of local recessions where farmers unable to meet creditor demands turn to the Federal Government for assistance.

Those who call for an end to the U.S. sugar program do not understand the complex relationships governing international sugar markets. The United States is not self-sufficient in sugar production. Thus it must import sugar, causing consumers to be dependent upon foreign suppliers to meet their sugar needs. Thus American sugar consumers must compete with foreign purchasers such as the Soviet Union, China, Canada, Japan and South Korea. When sugar producing and exporting countries meet their prearranged bilateral agreements with sugar importing countries they dump sugar on the world market, the United States would become a market for this unreliable supply of homeless sugar. Although the price is normally lower than U.S. supported sugar, if the U.S. consumer depended on this source prices would become unpredictable as shortages in sugar production could easily eliminate the "surplus" sugar forcing prices skyward.

Prices in the 1980's ranged from a low of 2.7 cents per pound to a high of 41.1 cents per pound. When these sugar prices forced consumer prices upward for sugar containing products. Although world sugar prices have gone down, prices of these products consumers buy every day have not gone down. Sugar consuming companies are the first in line to request an elimination of the sugar program because they can add to their ever increasing profit margins when world sugar prices increase.

Virtually every country has some form of sugar policy to protect their producers and consumers from the massive swings in world sugar prices. The United States must maintain its policy until agreements which are fair to all are agreed to which will reduce trade restrictions in all countries.

This is why I urge the subcommittee and the full committee to maintain the current sugar program within the framework of the 1990 farm bill. I urge them to maintain the "no cost" provision of the current legislation, and to provide a requirement that the term of the Commodity Credit Corporation loan on sugar be for 9 months. I also urge the subcommittee review the need to provide a fair and reasonable and overdue increase in the basic price support loan rate.

In 1985 the loan rate was set at 18 cents per pound, raw value, and the Secretary was given authority to increase the loan rate based on factors including increases in production costs. USDA cost of production statistics for sugar beet production shows that between 1985 and 1988, per acre seed costs increased 38.7 percent, chemical costs went up 33.8 percent and fertilizer costs jumped 16.7 percent. Total variable cash expenses per acre for sugar beets increased 34 percent during this time. It is time for the committee to recognize this increase and provide some equity for farmers in this bill.

Mr. Chairman and members of the subcommittee, I urge you to carefully review all the facts surrounding the issue of sugar and work to protect both the producer and the consumer in reauthorizing the Sugar Act in the 1990 farm bill.

Thank you Mr. Chairman.

Testimony of
L. H. Cunningham, President
A. E. Staley Manufacturing Company
Corn Refiners Association, Inc.
Senate Committee on Agriculture, Nutrition and Forestry
Subcommittee on Agricultural Production
and Stabilization of Prices
March 6, 1990

Mr. Chairman and members of the Committee: I am Larry H. Cunningham, president of A. E. Staley Manufacturing Company of Decatur, Illinois. I also serve on the Board of Corn Refiners Association, Inc., and submit this statement on behalf of that organization.

A list of our Association's membership is appended to my testimony. The Association represents the nations' producers of sweeteners, starches, feeds, oil and alcohol from U.S. corn. Last year, our industry purchased nearly a billion bushels of U.S. corn, and over the last decade corn refining has been the only growth market for America's major agricultural commodity. This growth has been led by the development of high fructose corn syrup, which now accounts for about one-third of all nutritive sweeteners consumed in the United States.

Today, the same industry which has been responsible for the development of corn sweeteners is turning its attention to the emerging bio-technology revolution, developing products which will revolutionize our production of medicines, fuels, industrial chemicals, plastics and packaging. We have only begun to scratch the surface of these potential contributions to our economy.

We appreciate the opportunity to share our thoughts on sugar policy and the 1990 farm bill with you today. There are a number of principles which we believe are critical for Congress to consider in development of this legislation:

First: The U.S. should not sacrifice its sugar and corn sweetener industries to a world sugar market which is divorced from the forces of supply and demand. Congress should resist any unilateral changes in U.S. sugar policy which are not coupled to demonstrated improvements in foreign government practices.

Second: Sweetener policy for the United States should be established through the traditional and legitimate mechanisms of Congress, taking into account any progress toward freer markets made through the trade negotiations process.

Third: U. S. sweetener policy should not promote one region or type of sweetener supply at the expense of other domestic producers.

Fourth: Appropriate support levels for sugar should be determined based on Congressional judgement of the needs of U.S. sugar producers and consumers.

I would like to elaborate briefly on each of these principles:

The ultimate goal of U.S. sweetener policy should be to remove all market-distorting subsidies and trade barriers. If this goal is achieved, it will be fair to require U.S. producers to operate in the world market in free competition with other countries. However, as long as the world price of sugar is determined more by political policies than by principles of comparative advantage, then the U.S. must be prepared to intervene in defense of its industries.

Although achievement of this ultimate objective requires participation in trade negotiations through the General Agreement on Tariffs and Trade, this process cannot be allowed to supersede the legitimate role of Congress in determining U.S. agricultural policy. Before Congress makes substantial changes in U.S. policy based on agreements negotiated under the GATT, there should be a clear understanding both of how foreign sugar can be overtly and indirectly subsidized, and of the effectiveness of industry-specific dispute resolution and remedy processes under the agreement. A recent discussion of the possible tariffication of U.S. sugar quotas by the International Trade Commission raised many more questions than it answered concerning how U.S. sugar producers and consumers would be affected by this process. We do not believe that Congress should consider any substantial changes in sugar policy on the basis of the type of vague proposals which have come from the administration to date.

Congress should avoid conversion of the sugar program to a target price/deficiency payment program similar to those in operation for major commodities such as corn and wheat for three reasons: First, such a system could easily be used to distort internal competitive relationships between different types of sweeteners and different sweetener producing regions; Second, because the U.S. is a net importer of sweeteners, this type of system would still require some type of import-control mechanism to avoid huge government costs; and finally, to be effective, a target price system for sugar would require deficiency payments well beyond currently accepted limits for individual producers.

The 1985 Farm Bill has been widely recognized as a successful mechanism both for protecting farm income and assuring consumers of an adequate supply of food and fiber. Nowhere has this been as true as in the sugar program, which has met both of these goals at no cost to the federal government.

Finally, we believe that the appropriate level of price support for sugar should be determined based on the needs of the sugar industry, as balanced by the Congress with the needs of consumers. Although high fructose corn syrup and sugar imports are important elements of the overall sweetener supply, the primary purpose of a sugar program should be to maintain a reasonable degree of sugar production in this country to supply the large market which cannot be served by liquid corn sweeteners. Determination of support rates for sugar based on other factors could lead to an ineffective and self-defeating program.

In this regard, it is important to note that U.S. sugar import quotas have nearly doubled over the past several years, despite widespread predictions that the U.S. would be a net exporter of sweeteners by the expiration of the current Farm Bill. The belief that the U.S. would change from a net importer to a net exporter of sugar has been a subject of great concern in the last several years, and has been used as a basis for proposals to dramatically change U.S sugar policy. However, not only have U.S. sugar imports increased in the last 3 years, but the USDA recently indicated that they expect the U.S. to be a major sugar importer during the next five years with no changes in current policy. Under these circumstances we do not believe that major changes in the sugar program are warranted.

Thank you very much for your interest, and we will be pleased to answer any questions you may have.

MEMBER COMPANIES

Corn Refiners Association, Inc.
1100 Connecticut Avenue, N. W.
Washington, D. C. 20036

ADM Corn Sweeteners (A division of Archer Daniels Midland Company) P. O. Box 1470 Decatur, Illinois 62525	Plants: Cedar Rapids, Iowa Decatur, Illinois Clinton, Iowa Montezuma, New York
American Maize-Products Company 250 Harbor Plaza Drive Box 10128 Stamford, Connecticut 06904	Plants: Hammond, Indiana Decatur, Alabama Dimmitt, Texas
Cargill, Incorporated P. O. Box 9300 Minneapolis, Minnesota 55440	Plants: Cedar Rapids, Iowa Eddyville, Iowa Dayton, Ohio Memphis, Tennessee
CPC International Inc. International Plaza P. O. Box 8000 Englewood Cliffs, New Jersey 07632	Plants: Argo, Illinois Stockton, California Winston-Salem, North Carolina
National Starch and Chemical Corporation P. O. Box 6500 Bridgewater, New Jersey 08807	Plants: Indianapolis, Indiana North Kansas City, Missouri
Penford Products Co. (A division of PENWEST, LTD.) P. O. Box 428 Cedar Rapids, Iowa 52406	Plant: Cedar Rapids, Iowa
A. E. Staley Manufacturing Company P. O. Box 151 Decatur, Illinois 62525	Plants: Decatur, Illinois Morrisville, Pennsylvania Lafayette, Indiana (2) Loudon, Tennessee

NATIONAL
FARMERS
UNION

Statement of the
National Farmers Union

to the

Subcommittee on Agricultural Production
and Stabilization of Prices

Senate Committee on Agriculture, Nutrition
and Forestry

on

U.S. Sugar Policy and the 1990 Farm Bill

March 6, 1990

600 Maryland Avenue, S.W. • Suite 202W • Washington, D.C. 20024 • Phone (202) 554-1600

Statement of the National Farmers Union to the Subcommittee on Agricultural Production and Stabilization of Prices, Senate Committee on Agriculture, Nutrition and Forestry, on U.S. Sugar Policy and the 1990 Farm Bill. March 6, 1990.

The National Farmers Union welcomes this opportunity to present its views on U.S. sugar policy, especially as it relates to the development and writing on the 1990 farm bill.

The National Farmers Union is a general farm organization with a membership of nearly 300,000 farm and ranch families. Included in that membership are a number of farm families who raise sugarbeets, as well as other crops from which sweeteners are produced.

Over the years since our organization was founded in 1902, the Farmers Union has realized the need for a viable sugar program to provide U.S. consumers with a stable, reliable supply of sugar and sugar producers and processors with the market stability needed to make the long term capital investment necessary for the production of this specialty crop.

It is for those reasons, Farmers Union members have been strong supporters of the U.S. sugar program over the years and have felt that a workable International Sugar Agreement would be in the best interest of consumers and producers on a global basis as well.

There are a variety of reasons why we have not been able to achieve a viable International Sugar Agreement. One of the chief reasons, however, has been hostility of recent U.S. administrations to the concept of international commodity agreements and their refusal to make a serious attempt to negotiate a workable International Sugar Agreement.

Absent an International Sugar Agreement to bring about some sanity in the world sugar marketing system, the Farmers Union believes it is imperative to maintain a U.S. sugar program as is currently in place in order to provide an assurance the U.S. will not become a dumping ground for everyone else's surplus sugar supplies as has happened for so many other products.

The flexible import restraints present in the current U.S. sugar program are needed to maintain a viable sugar producing industry in the U.S. Without them, the domestic industry would be devastated as would the communities which are dependent upon the jobs created by the sugar industry.

It is for that reason, the Farmers Union believes the U.S. administration's GATT proposal, which would convert sugar import quotas to tariffs scheduled for substantial and progressive reductions over a 10 year period, is a mistake. It is a prescription for the demise of the U.S. sugar industry. It is ill conceived and we hope it will go nowhere in the current round of agriculture negotiations.

That is not to say that it is not possible to make improvements in the present sugar program. It is possible and Congress should consider modifications to the present program when the 1990 farm bill during the current session.

Indeed, Farmers Union members considered the matter so important that delegates to the 88th annual Farmers Union convention which is taking place as this subcommittee meets last night approved a special order of business on U.S. sugar policy to give Congress guidance as to the views of the Farmers Union.s We would ask that a copy of the Special order, which is attached to this statement, also be made a part of the hearing record.

SPECIAL ORDER OF BUSINESS
Adopted by Delegates to
the 88th Annual Convention
National Farmers Union
Oklahoma City, Oklahoma
March 4 - 7, 1990

U.S. Sugar Policy and the 1990 Farm Bill

Whereas the current U.S. sugar program has successfully provided consumers with stable, reliable supplies of sugar at reasonable prices even when domestic production was reduced due to weather related problems.

Whereas the U.S. sugar program has successfully provided sugar producers with decent incomes.

Whereas the U.S. sugar program has successfully provided good jobs and employment opportunities in the communities where the sugar industry exists, many of which are rural areas where there are fewer employment alternatives.

Whereas the U.S. sugar program has successfully operated at no net cost to the government.

Therefore let it be resolved that given the success of the current program, Congress should make only careful, minor changes, if any, in the current program when it considers the 1990 farm bill. Any sugar program developed by Congress should contain the following points:

-- it should not allow the GATT to jeopardize in any way the major elements of the current U.S. sugar program;

-- it should maintain a quota system, within the U.S. sugar program, that will avoid forfeitures of domestic sugar to the U.S. government and also provide acceptable levels of minimum import access to the U.S. market from traditional foreign suppliers;

-- it should maintain at least current sugar price support levels and provide for escalators to reflect increases in production costs;

-- and it should be sensitive to trade issues regarding sweetener blends, especially the illegal circumvention of import restrictions by blended products.

Statement by the Queensland Sugar Board
and CSR, Limited

in behalf of
the Australian Sugar Industry

Before the
Senate Subcommittee of Agricultural Production
and Stabilization of Prices

March 6, 1990

Statement by the Queensland Sugar Board
and CSR, Limited
in behalf of
the Australian Sugar Industry
Before the
Senate Subcommittee of Agricultural Production
and Stabilization of Prices
March 6, 1990

This statement is submitted by David Rutledge, Chief Executive of the Queensland Sugar Board, and Roger Williams, Manager, Raw Sugar Marketing of CSR Limited. The Sugar Board is responsible for marketing Australia's sugar exports. CSR Limited is the marketing agent appointed by the Sugar Board.

We are providing this statement on behalf of the approximately 6000 sugar cane farmers and 33 raw sugar mills of the Australian sugar industry.

Australia has been one of the most consistent and reliable suppliers to the U.S. market since the United States banned the import of Cuban sugar in 1960. Australia has remained as a reliable supplier in both quota and non-quota periods even when better prices were available in the world market.

In 1981, prior to the return of U.S. sugar import quotas, Australia exported almost 800,000 tonnes of sugar to the United States. In the 21 month period of the current extended 1989-1990 quota, Australia's quota allocation is down to 201,054 tonnes raw value or about 120,000 tonnes on a normal annualised quota basis. This represents a decline in a access to the U.S. of about 85% since quotas were imposed in 1982.

Australia is one of the world's lowest cost, most technologically advanced and efficient sugar producers. It is at the forefront of research into sugar cane, milling and refining technology, bulk handling, and transport systems for sugar. It has to be. It is the largest raw sugar exporter to the world free market. It exports just under 3 million tonnes of sugar per annum which represents about 80 percent of Australian sugar production. That is why we fight so hard to retain our access to one of our most important markets - the U.S. market.

The Australian sugar industry receives no government subsidies. Prior to July 1 1989, the 20% of production for our domestic market was protected by a law prohibiting sugar imports into Australia and a government regulated domestic pricing system. Effective from July 1 1989, even this protection was removed and replaced by tariff on imports declining in steps from A$115 per tonne to A$70 per tonne (equals US 3.9 cents/lb to 2.38 cents/lb) in 1992.

Our industry supports and adopts the comments on the U.S. Sugar Program by the Australian Government in its written testimony filed for consideration by this Committee. In addition, we make the following points.

(a) We recognize the right of the U.S. to provide some assistance to its domestic sweetener industry, provided such protection is GATT-consistent, is non-discriminatory, does not subsidize inefficient producers, and does not subsidize exports.

(b) We oppose the present policy of achieving this goal by the existing domestic price support program which is itself supported by import quotas and prevents U.S. producers from receiving market supply/demand signals.

(c) We support the U.S. Administration's commitment to make the sugar program GATT-consistent.

(d) We urge the U.S. Government to achieve this goal by a system of non-discriminatory tariff protection in which Australia can compete on an even playing field with other countries supplying the U.S. market. This approach is consistent with the U.S.'s own approach of tariffication in the current Uruguay Round of Multilateral Trade Negotiations.

(e) As an interim measure, we support the objectives of the Sugar Supply Stabilization Act. We do not comment specifically on the other policy options being suggested to the Committee except to say that any policy which does not address the fundamental problems of U.S. sugar policy will merely substitute new problems for legislators and administrators alike down the line.

(f) We do not come here asking for any special favours or preferential treatment - nor have we done so since quotas began in 1982. We simply seek the freedom to compete without discrimination in the U.S. sugar market.

(g) We have, since 1977, protested loudly against the sugar export subsidy policies of the EEC because of their corrupting effect on our principal market - the world market. We suggest it does not matter whether export subsidies come out of the pockets of government, of consumers, or of producers and foreign suppliers who may supply raw sugar for refining and re-export as white sugar. All of these are corruptive of world markets and contribute to the depression and volatility of world market prices. They also support inefficient producers.

(h) As a result of the return of U.S. quotas in 1982, around 4.0 million metric tonnes of foreign-supplied sugar has had to find other homes, mostly in the world free market. This contributed directly to the fall in world prices at that time. It has continued to depress world prices and to increase volatility since then. The world free market is the major market for Australia and we are the largest raw sugar supplier to it. Several developing countries have been similarly affected. The over-supply in the world market greatly reduced the income of our efficient industry between 1982 and 1987 and is likely to do so in the future unless U.S. and EEC sugar policies change. The premium received by our industry for its U.S. sales is a drop in the bucket compared to the income lost because of over-supply resulting from these policies.

In 1988, the U.S. enjoyed a trade surplus of around 4 billion dollars with Australia. This was the second-largest bilateral trade surplus of the U.S. with any country. Also, sugar is an important income earner for Australia, earning A$980 million (about US$735 million) in the year ending June 1989. Our sugar trade with the U.S. is therefore extremely important to us and we hope that legislation will be adopted to put in place policies that will allow us to compete in a fair U.S. market.

Finally, our over-riding concern with the U.S. sugar program is to see its distorting effects on the world sugar market removed.

Thank you very much for the opportunity to present this statement to the Subcommittee.

COUNTY COUNCIL

MAXINE CORREA, CHAIR
BILL KAIPO ASING, VICE CHAIR
JESSE FUKUSHIMA
RONALD KOUCHI
MAURICE MUNECHIKA
JERRY F. SANTOS
JAMES TEHADA

Ph. (808) 245-4771

4396 RICE STREET
LIHUE, KAUAI, HI 96766

Mailing Address:
4444 Rice Street, Room 230
Lihue, Hawaii 96766

OFFICE OF THE COUNTY CLERK

JEROME Y. K. HEW, County Clerk
C. BUNJI SHIMOMURA, Deputy Clerk

Ph. (808) 245-4785

March 21, 1990

The Honorable Kent Conrad
United States Senate
Washington, DC 20510

Dear Senator Conrad:

The Senate and House of Representatives will soon be considering the 1990 Farm Bill and the support program for sugar. I am writing to urge your support for the continuation of the current sugar program.

Sugar is an essential part of Hawaii's economy, as well as its culture and heritage. Our sugar producers are highly efficient. They produce more sugar per acre and more sugar per man hour than any other sugar producers in the world. No countries produce and remain in sugar without a program of protection against unfair competition, and Hawaii's sugar industry cannot survive, let alone compete, without a support program.

On our Island of Kauai, growing sugarcane is the dominate agricultural activity-almost all cropland is in this crop. Up to 20 percent of our workers hold jobs directly or indirectly created by the sugar industry. A major portion of electricity on our island is produced by our sugar mills, using bagasse or cane residue for fuel. The loss of the industry would be a hardship not only for the affected workers and their families but also for our island's economy. Tourism, our largest industry, would be significantly affected by the loss to visitors of the lush, verdant sugarcane fields that create a pleasing scenic backdrop to visitor activities.

The current sugar program has helped Hawaii's sugar industry survive and has ensured our consumers a steady supply of sugar at reasonable, stable prices. To protect our sugar producers from unfair competition, I am most hopeful that you will support the continuation of the sugar support program in the 1990 Farm Bill.

Sincerely,

Maxine Correa
MAXINE CORREA
Council Chairperson

Bill "Kaipo" Asing
BILL KAIPO ASING
Councilmember

JESSE FUKUSHIMA
Councilmember

Ronald Kouchi
RONALD KOUCHI
Councilmember

Maurice A. Munechika
MAURICE A. MUNECHIKA
Councilmember

JERRY SANTOS
Councilmember

James Tehada
JAMES TEHADA
Councilmember

FLORIDA SUGAR CANE LEAGUE, INC.
RIO GRANDE VALLEY SUGAR GROWERS, INC.
910 SIXTEENTH STREET, NORTHWEST
SUITE 402
WASHINGTON, D.C. 20006
(202) 785-4070
FAX (202) 659-8581

March 23, 1990

Senator Kent Conrad
Subcommittee on Agricultural Production
and Stabilization of Prices
361 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Conrad:

Rhone-Poulenc Ag Company is one of many American companies whose survival depends on a viable US sugar industry. This company, which does business with the Florida sugar industry, like many other companies around the country who do business with the sugarcane, sugarbeet and corn sweetener industries, supports the continuation of the US sugar program in a form similar to the current program which has been so successful for the past nine years.

Florida sugarcane growers, processors and Rhone-Poulenc are pleased to provide this package of high-quality, American-made, sugar-containing products for your enjoyment. Your leadership and support to continue the US sugar program is greatly appreciated.

Sincerely,

Dalton

Dalton Yancey
Washington Representative

"Representing Florida and Texas Cane Sugar Growers and Processors"

DARYL T. YAMAMOTO
County Clerk

MYLES H. INOKUMA
Deputy County Clerk

OFFICE OF THE COUNTY CLERK
COUNTY OF MAUI
200 SOUTH HIGH STREET
WAILUKU, HAWAII 96793

March 19, 1990

Honorable Kent Conrad
United States Senate
Washington, D.C. 20510

Dear Sir:

Transmitted herewith is a certified copy of Resolution No. 90-24, which was adopted on March 16, 1990 by the Council of the County of Maui, State of Hawaii.

Respectfully yours,

Daryl T Yamamoto
DARYL T. YAMAMOTO
County Clerk

/jym

Enclosure

Resolution

No 90-24 Introduced By Goro Hokama Councilmember

GORO HOKAMA

URGING THE UNITED STATES CONGRESS TO SUPPORT THE CONTINUATION OF THE SUGAR SUPPORT PROGRAM IN THE 1990 FARM BILL

WHEREAS, the United States Senate and House of Representatives will soon be considering the 1990 Farm Bill which will perpetuate the sugar support program; and

WHEREAS, sugar is an essential component of Hawaii's economy, culture, and heritage; and

WHEREAS, the current sugar support program has effectively maintained the viability of Hawaii's sugar industry; and

WHEREAS, Hawaii's sugar industry produces nearly 1 million tons of raw sugar annually, or approximately 12 per cent of the nation's beet and cane sugar; and

WHEREAS, more than 30 percent of the sugar produced in Hawaii comes from Maui where 61 percent of the cropland is sugarcane; and

WHEREAS, the sugar industry employs 6,000 residents and indirectly creates jobs for 14,000 other residents in our State; and

WHEREAS, 15 percent of Maui's work force is employed by the sugar industry, and its loss would create extreme hardship not only for the affected workers but also for the social and economic welfare of both our island and the State; and

WHEREAS, a significant portion of the electricity on Maui is produced by our sugar mills, using bagasse or cane residue for fuel; and

WHEREAS, tourism, our State's largest industry, would be severely affected if the lush and verdant sugarcane fields

COUNCIL OF THE COUNTY OF MAUI
STATE OF HAWAII
WAILUKU, HAWAII 96793

that create an aesthetic scenic background to visitor activities were lost; and

WHEREAS, the sugar support program has sustained Hawaii's sugar industry and ensured our consumers with a steady supply of sugar at reasonable and consistent prices; and

WHEREAS, no country could produce and remain in the sugar industry without a program of protection against unfair competition, and Hawaii's sugar industry cannot survive or compete without a support program; now, therefore,

BE IT RESOLVED by the Council of the County of Maui:

1. That it does hereby urge the United States Congress to support the continuation of the sugar support program in the 1990 Farm Bill; and

2. That certified copies of this resolution be transmitted to the Members of the Hawaii Congressional Delegation: the Honorable Daniel K. Inouye, United States Senator; the Honorable Spark M. Matsunaga, United States Senator; the Honorable Daniel K. Akaka, United States Representative; the Honorable Patricia Saiki, United States Representative; and

3. That certified copies of this resolution be transmitted to the Members of the United States Senate Agriculture Committee: the Honorable Patrick J. Leahy, the Honorable David Pryor, the Honorable David L. Boren, the Honorable Howell T. Heflin, the Honorable Tom Harkin, the Honorable Kent Conrad, the Honorable Wyche Fowler, Jr., the Honorable Thomas A. Daschle, the Honorable Max Baucus, the Honorable J. Robert Kerrey, the Honorable Richard G. Lugar, the Honorable Robert Dole, the Honorable Jesse Helms, the Honorable Thad Cochran, the Honorable Rudy Boschwitz, the Honorable Mitch McConnell, the Honorable Christopher Bond, the Honorable Pete Wilson, the Honorable Slade Gorton; and

Resolution No. 90-24

4. That certified copies of this resolution be transmitted to the Members of the House Agriculture Committee: the Honorable Kika de la Garza, the Honorable Jerry Huckaby, the Honorable Robin M. Tallon, the Honorable Mike Espy, the Honorable Charles W. Stenholm, the Honorable Richard H. Stallings, the Honorable Bill Sarpalius, the Honorable Walter B. Jones, the Honorable Charles F. Hatcher, the Honorable Edward R. Madigan, the Honorable Arlan Stangeland, the Honorable Bill Emerson, the Honorable Tom Lewis, the Honorable Larry Combest, the Honorable Wally Herger, the Honorable Clyde C. Holloway; and

5. That a certified copy of this resolution be transmitted to Mr. Eddie Lapa, President of the Local 142, ILWU; and

6. That a certified copy of this resolution be transmitted to Mr. Don J. Heinz, President of the Hawaiian Sugar Planters' Association.

33:PAF:daw

Rick Medina

Velma M. Santos

Linda Crockett Lingle

Pat Kawano

COUNCIL OF THE COUNTY OF MAUI
WAILUKU, HAWAII 96793

CERTIFICATION OF ADOPTION

It is HEREBY CERTIFIED that the foregoing resolution was adopted by the Council of the County of Maui, State of Hawaii, on the 16th day of March, 19 90 by the following vote:

MEMBERS	Linda CROCKETT LINGLE	Goro HOKAMA Chairman	Patrick S. KAWANO	Howard S. KIHUNE Vice-Chairman	Alice L. LEE	Ricardo MEDINA	Wayne K. NISHIKI	Velma M. SANTOS	Joe S. TANAK
ROLL CALL	Aye	Excused	Aye	Aye	Aye	Aye	Aye	Aye	Aye

COUNTY CLERK

TESTIMONY

OF

FAIR FARM POLICY

SUBMITTED FOR THE RECORD

UNITED STATES SENATE

AGRICULTURE COMMITTEE

HEARING ON SUGAR

MARCH 6, 1990

FAIR FARM POLICY
BOX 328
MONTEVIDEO, MINNESOTA 56260

Mr. Chairman,

Thank You for holding this hearing on sugar. FAIR FARM POLICY is submitting this testimony to be included in the hearing record.

FAIR FARM POLICY is a group of corn, soybean , and wheat farmers who are concerned about the inequities of the current sugar program. Our goal is not to destroy the U.S. Sugar program as some have suggested. We want to bring the Sugar program back in line with other commodity programs so that it will not have an adverse effect on other farmers, farm communities, U.S. trading partners, U.S. trade relations, and the competitiveness of the domestic sweetener industry.

The current program is creating a financial elite among U.S. farmers by guaranteeing sugar producers nearly 10 times the net profits that corn, soybean, and wheat producers are getting under the 1985 farm bill. This policy is causing havoc in the sugar producing area. The sugar producers are using the financial advantage given to them by the 1985 farm bill to take land resources away from other commodity producers.

There are no restrictions on acreage expansion for sugar like there are for corn and wheat. Sugar producers have used their financial superiority to expand at an alarming rate. In Minnesota alone sugar beet acreage has grown from 278,000 acres in 1985 to 342,000 acres in 1989, a 23% expansion. This expansion has a multiplier effect. For every acre of sugar beets grown the producer needs an additional four to five acres to maintain an acceptable rotation. In effect, a twenty percent acreage expansion is equivalent to an eighty to one hundred percent expansion in terms of land need.

Corn and wheat producers have not had the opportunity to expand because of the restrictions of the 85 farm bill. We have had to watch as sugar producers take land away from us because of a government program that is out of line. We have examined the land sales records for Leenthrop Township, Chippewa County, Minnesota from Jan. 1, 1986 to June 1, 1989. During that period of time over 85% of the land that was transferred from one owner to another either went directly to a sugar beet producer or it was bought by someone who then leased it to a sugar producer. This clearly shows how strong of an advantage sugar has.

Since 1981 sugar acreage has increased by 32% in Minnesota, while corn acreage has shrunk by 19% and spring wheat has declined by 24%. It is a only a generous sugar support program that has given this industry the power that it needs to expand. We would have no problem with the apparent success of the sugar industry if it were earning its way in a free and competitive market environment. This is not the case.

The sugar industry enjoys a protection that is unparalleled in agriculture and it is only this protection that gives sugar producers the clout that they need to take land resources away from the rest of agriculture.

In Minnesota we have available to us the averages from over 6000 farm family financial records. These come from a Farm business management program that is offered to farm families through the technical colleges and the high schools. Instructors aid farm families in preparing records that are used for tax preparation and for analysis of the various farm enterprises.

These records are then averaged for the six regional areas and the results are public information. Because these numbers are from actual farm records and are used for tax and farm planning, they give us the most accurate picture of what is happening to farm incomes. The net returns per acre per year for the years 1984-1988 are $25.94 for soybeans, $25.53 for corn, $32.33 for wheat, and $206.40 for sugarbeets. (see chart on page 1.) In order for the other crops to equal the net income of sugarbeets, you would need a price of $10.82 for soybeans, $4.02 for corn, and $8.49 for wheat. (see chart on page 2.)

The USDA recently completed a study of the costs of production for sugarbeets in Minnesota and Eastern North Dakota. This study was done for the year 1988. The numbers from this study closely match those from the Minnesota Farm Business Management Program for 1988. Because these numbers match for that year it follows that the historical data from the Minnesota book is an accurate analysis of the relationship between corn, wheat , soybeans, and sugarbeets for the years 1984 through 1988.

There must be a balance between farm programs. It should never be the purpose of the federal government to single out one commodity and give it an unearned and undeserved advantage.

The sugar program is not just hurting us in the area of competing for land resources, but also in the area of foreign trade. We as corn, wheat, and soybean farmers need to sell our products overseas. Our existing customers are very important to us but the developing third world countries hold a lot of promise as agricultural markets. As they develop, their need to improve the nutritional level of their population increases. This will cause them to search for our corn, wheat, and beans. In order for them to buy these products, they must find the cash to do that. They must be able to sell products that they can produce economically to raise the money. The current U.S. sugar program is depriving many of these countries this opportunity. Thus it is depriving us of the markets for our products.

As an example, look at the country of the Philippines. In 1983, they imported 361,900 metric tons of U.S. corn and 30,600 metric tons of U.S. soybeans. These figures come from the USDA - Export Division. At about the same time, during the marketing period of Sept. 26, 1983 through Sept. 30, 1984, their sugar quota to the U.S. was 410,670 short tons. By 1987 when their sugar quota had fallen by 65% to 143,780 short tons, their imports of our corn and soybeans fell to zero. In 1988, when their quota increased slightly, they started to import corn and soybeans again.

The sugar program was designed to protect U.S. producers but it has gone far beyond that. It has given the U.S. grower the opportunity to shut out his competitor and to expand in this artificial vacuum of a market. The amount of sugar imports has fallen from app. 5 million tons before 1982 to app. 1 million tons last year. We would have fallen to zero imports if not for the drought and freezes of the last 2 years. This destruction of a market place for these third world countries has destroyed a valuable market for corn, wheat, and soybeans.

Another interesting third world country situation is the small nation of Belize. This small country's exports to the U.S were at 44,000 short tons in the late 1970's but fell to app. 10,000 in 1987. This 75% drop was not replaceable with any other legitimate industry. They could grow sugar cane for sugar but very little else. How did the people survive the loss of three fourths of their main industry? By 1985, Belize had become the world's fourth largest exporter of marijuana. The loss of a market place due to the U.S. sugar program pushed people into drug trafficking.

The advocates of the sugar program are quick to talk about its no cost provision but how many hidden costs are there? What is the cost for situations like Belize? What is the cost in economic instabilities like that of the Philippines? What is the cost in additional aid needed by third world countries? What is the cost in the upheaval in the farm communities around U.S. sugar producing facilities? The cost is truly great. The no cost provision is one of those political half truths that hides the true facts.

The negative image the sugar program gives to foreign countries also hurts our ability to sell wheat, corn, and soybeans. The perception of our policies is very important to our ability to export to other countries. The sugar program destroys our credibility by making us appear two-faced. On one hand we're pushing for free trade but on the other, we've got a protectionist sugar policy as great as anything Canada or the EEC has and is in line with some of Japans levels of support. This inconsistency destroys our image as a fair trading partner.

The sugar policy is discouraging expansion in the domestic market. Major sweetener users are looking to other countries when they are expanding because the U.S. is holding the sugar price high enough to force them to make economic decisions that are not in the best interests of domestic producers. As corn farmers it is in our best interest to have a domestic industry that is using as much of our product as possible. This will not happen as long as we continue to support a domestic program that prices us out of the world market.

Major sweetener producers agree that the usage of corn sweetener will go up dramatically if we can all adopt a more open trading policy. In the Feb. 19,1990 issue of Insight magazine the chairman of Archer-Daniels-Midland Co. maintains that in a wide-open market, undistorted by subsidies and protective tariffs his fructose business would double.

The current program has benefited U.S. producers greatly, but can it continue? Let's look at some of the current conditions in the sugar industry. We have declining usage, increased production, and increasing competition.
U.S. consumption has dropped 25% in the last decade. The production increases are continuing. The Valley plans to expand by 10,000 acres for 1990. Remember, that means 40 to 50 thousand acres need by sugarbeet growers for rotations. As long as the domestic sugar support price remains artificially high, the expansion will not end. The competition from corn sweeteners and artificial sweeteners continues to grow.

To compare to another similar situation, lets look back at corn starting in the early 70's. The demand for corn exploded and so did the prices. The U.S. along with the rest of the world, increased production. A string of poor weather conditions worldwide kept demand ahead of supply and the prices relatively high. By the end of the decade, the weather patterns turned around and we had a string of favorable weather years. The supply exceeded the demand and world prices fell. U.S. prices were replaced by a high government loan rate that had risen along with earlier price rises. We ended up in a situation where we had high profits due to a government program, increasing competition from other producers, declining market share, and increasing production to meet the demands of the profits from the government program. Sounds familiar, doesn't it? The current sugar program has the same basic conditions. And the same disaster that befell corn in the early 80's, is waiting for sugar.

One good year of weather will put us in the position of producing more sweeteners than we can use. We would have to dump it on the world market. To do this would require government dollars. In this period of budget balancing, the only place to find those dollars, would be from other agricultural programs. With sugar currently enjoying a 10 to 1 ratio of net per acre profits it would be ludicrous to take money from the corn and wheat programs to fund this export program.

The solution is the same for sugar as it was for corn: become competitive while the government program provides a protective base. Sugar must become competitive in order to survive. The lowering of the loan rate is the only way to accomplish this. The 18 cent base loan rate for sugar results in nearly a 23 cent loan for sugarbeets. The proposed lowering of the base rate to 12 cents would result in an app 17 cent loan for sugarbeets. By using the 5 year averages that were referred to previously, we can compute what the net returns would be. They would still be higher than corn, wheat, or beans. (see chart on page 2) $43.58 based on a 5 year average and $59.71 based on a 3 year average.

The making of sugar to be competitive is vital to the future of the industry. The lowering of the loan rate is what is in the best interest of the sweetener industry. The current program is a prescription for disaster. It results in over production and a collapse of prices. The solution is to shift to relying on the market place instead of a government program. The proposed lowering of the sugar loan rate to 12 cents will create a competitive balance between commodities while still providing a protective floor for the sweetener industry. This floor will allow for the expansion of domestic production to be made on market need instead of a high government support. Expansion will then go to those who are most competitive. This will hopefully return some of the lost markets to countries who have been unfairly penalized by our domestic quota system. Lowering the loan rate to $0.12 will be a fair solution for everyone. FAIR FARM POLICY urges You to lower the loan to $0.12 and institute acreage controls that are in place for other protected commodities.

1.

MINNESOTA FARM BUSINESS MANAGEMENT AREA ANALYSIS SUMMARY FOR 1984-1988

CROP	YEAR	# RECORDS	AVERAGE GROSS INCOME	AVERAGE NET INCOME	YIELD
BEANS	1984	1409	199.26	15.99	33.85
BEANS	1985	1428	160.01	-5.84	32.04
BEANS	1986	1444	165.67	20.50	36.36
BEANS	1987	1634	203.28	50.93	41.32
BEANS	1988	2732	225.53	48.11	28.01
BEANS	3 YEAR AVE		198.16	39.85	35.23
BEANS	4 YEAR AVE		188.62	28.43	34.43
BEANS	5 YEAR AVE		190.75	25.94	34.32
BEANS	AVE PER RECORD		196.23	29.89	
BEETS	1984	68	584.69	150.93	15.75
BEETS	1985	53	599.64	196.83	17.74
BEETS	1986	83	600.64	219.35	16.70
BEETS	1987	120	777.25	358.74	20.63
BEETS	1988	114	558.44	106.16	13.62
BEETS	3 YEAR AVE		645.44	228.08	16.98
BEETS	4 YEAR AVE		633.99	220.27	17.17
BEETS	5 YEAR AVE		624.13	206.40	16.89
BEETS	AVE PER RECORD		635.45	214.73	

YIELD FOR DISTRICT 1 BEETS WAS REPORTED AS CWT EXTRACTABLE SUGAR TO CONVERT TO TONS, A 13% AVERAGE EXTRACTABLE RATE WAS USED.

CORN	1984	1956	259.63	25.70	101.79
CORN	1985	1982	255.62	35.32	109.79
CORN	1986	2102	209.11	12.97	114.62
CORN	1987	2298	272.58	69.96	125.87
CORN	1988	3314	216.08	-16.28	75.01
CORN	3 YEAR AVE		232.59	22.22	105.17
CORN	4 YEAR AVE		238.35	25.49	106.32
CORN	5 YEAR AVE		242.60	25.53	105.42
CORN	AVE PER RECORD		240.00	21.83	
WHEAT	1984	644	179.42	53.09	46.87
WHEAT	1985	706	192.46	62.78	52.15
WHEAT	1986	931	135.66	16.82	34.77
WHEAT	1987	1075	152.76	32.45	39.10
WHEAT	1988	1350	123.55	-3.49	22.06
WHEAT	3 YEAR AVE		137.32	15.26	31.98
WHEAT	4 YEAR AVE		151.11	27.14	37.02
WHEAT	5 YEAR AVE		156.77	32.33	38.99
WHEAT	AVE PER RECORD		150.60	26.42	

MINNESOTA FARM BUSINESS MANAGEMENT AREA ANALYSIS SUMMARY FOR 1984-1988

		AVERAGE GROSS INCOME	AVERAGE NET INCOME	AVERAGE YIELD	PRICE TO = BEETS	RETURN IF 23 IS LOWERED TO 17
COMPARISONS OF 5 YEAR AVE						
BEANS	5 YEAR AVE	190.75	25.94	34.32	10.82	
BEETS	5 YEAR AVE	624.13	206.40	16.89		43.58
CORN	5 YEAR AVE	242.60	25.53	105.42	4.02	
WHEAT	5 YEAR AVE	156.77	32.33	38.99	8.49	
COMPARISON OF 4 YEAR AVE						
BEANS	4 YEAR AVE	188.62	28.43	34.43	11.05	
BEETS	4 YEAR AVE	633.99	220.27	17.17		54.88
CORN	4 YEAR AVE	238.35	25.49	106.32	4.07	
WHEAT	4 YEAR AVE	151.11	27.14	37.02	9.30	
COMPARISON OF 3 YEAR AVE						
BEANS	3 YEAR AVE	198.16	39.85	35.23	10.97	
BEETS	3 YEAR AVE	645.44	228.08	16.98		59.71
CORN	3 YEAR AVE	232.59	22.22	105.17	4.17	
WHEAT	3 YEAR AVE	137.32	15.26	31.98	10.95	